Priorities and Strategies in Rural Poverty Reduction

EXPERIENCES FROM LATIN AMERICA AND ASIA

Edited by DIANA ALARCON
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Preface

This publication is part of a series of books on comparative best practices in social development between Latin America and the Caribbean and East Asia undertaken by the Institute for Social Development (INDES) and the Japan Program of the Inter-American Development Bank (IDB). INDES is both a training institute and a forum for the exchange of knowledge; its main goal is to build capacity among decision makers and managers of social programs to improve the impact of economic and social policies in promoting human development and equitable growth in Latin America. The Japan Program established by the IDB and the Government of Japan in 1999, aims to promote the exchange of knowledge and development experience between Japan and the rest of Asia, Latin America and the Caribbean.

This publication brings together valuable experience in the design and implementation of poverty reduction programs in rural areas as presented at a Workshop on Priorities and Strategies on Rural Poverty Reduction: Experiences from Latin America and East Asia, held in Tokyo and Shimane, Japan, June 4-8, 2001. The seminar was organized by INDES and the Japan Program with the collaboration of the IDB Office in Japan and the financial support of the Government of Japan. The seminar brought together distinguished researchers and rural poverty policy makers from both regions, as well as representatives of the Inter-American Development Bank, the Asian Development Bank and the Center on Integrated Rural Development for Asia and the Pacific.

The objective of the seminar was to establish a dialogue and exchange of best practices between both regions with the firm conviction that Latin America and Asia have much to share on the issue of rural poverty. Indeed, the large incidence of rural poverty in both regions requires the design and implementation of innovative solutions to increase the growth potential of rural areas and improve access to basic services in health, education, housing and social infrastructure for the poor. At the same time, both regions have a lot to learn from the experience of countries in East Asia that were able to sustain fast economic growth with a more equitable distribution of income, balanced growth between urban and rural areas and rapid poverty reduction. The experience of these countries confirms the importance of the “initial conditions” in shaping development outcomes. An equitable distribution of land and productive assets in rural
areas was complemented by equitable social policies that increased the opportunities of the poor to improve their health, education and employment options.

The cross-regional experiences presented here contribute important lessons on issues that are critical to promoting human development and faster growth of rural areas. The selection of topics published in this volume: overall strategies of development and rural poverty reduction; diversification of the rural economy; and improving access to credit for the rural poor do not exhaust the development agenda of rural areas but are critical issues in the search for policy options and best practices.

Latin America and Asia have rich experience in the implementation of policies and programs to reduce rural poverty. Discussions during the seminar and contributions published in this volume highlight the importance of maintaining a permanent and open dialogue among researchers and policy makers from the two regions. Although some of the responses presented here are still evolving, this is nonetheless an opportune moment to learn from past experiences, from mistakes made, and from successes achieved. Guided by rationales that do not always coincide, these responses are complementary to a significant degree, though with differences that enrich them. They make clear that it is necessary to take the socioeconomic context into consideration, but they also point to the value of learning from various approaches that may be applied to a single problem.

In all cases, the importance of developing a modern vision in the management of social programs was central to the search for innovative solutions for economic growth and rural poverty reduction. Institutional strengthening and participatory design and implementation of development programs have been at the center of the debate in both regions. The review of experiences from Latin America and Asia on the issue of rural poverty confirmed the importance of adopting a flexible and adaptive approach to the design and management of social policies and programs. These are underlying principles of the capacity-building initiative adopted by INDES in Latin America.

It is my hope that the case studies presented in this volume will serve as a starting point for further debate and intellectual exchange between policy makers in Latin America and Asia.

Nohra Rey de Marulanda
Director, INDES
序文

本書は、米州社会開発研究所（INDES）と米州開発銀行（IDB）のジャパン・プログラム（JP）が手掛けて、中南米カリブ諸国と東アジアにおける、社会発展ベストプラクティスの比較に関する一連の出版物の一つである。INDES は、研修機関であり、また知識交流の場でもある。その主な目的は、中南米の人間開発や公正な成長を促進において、経済・社会政策の効果を高めるために、社会計画の意思決定者や責任者のキャリア・ビルディングを支援することである。ジャパン・プログラムは、日本と他のアジア諸国、中南米、およびカリブ海諸国との間で、知識や開発経験を交流することを目的に、1999 年に IDB と日本政府の協力で設立された。

本書は、2001年6月4日から8日かけて日本の東京と島根で開かれたセミナー「貧困緩和のための優先課題と戦略：中南米カリブ諸国と東アジアの経験」で発表された、農村の貧困緩和プログラムの計画と実施に関する貴重な経験をまとめたものである。このセミナーは、日本の IDB 事務所の協力と日本政府からの資金援助を得て、INDES とジャパンプログラムによって企画されたものである。セミナーは、両地域から著名な研究者、農村貧困政策立案者と、米州開発銀行、アジア開発銀行、およびアジア太平洋総合農村開発センターの代表者が出席した。

セミナーの目的は、中南米とアジア、特に農村の貧困について共有する課題が多いという理由のもとに、両地域間でベスト・プラクティスに関する対話を確立させ、ベスト・プラクティスを共有し合うことであった。実際に、両地域における広い農村地域の収益は、農村地域の潜在的成長力を高め、貧困層のための保健医療、教育、住宅、および社会基盤等の基本的なサービスへのアクセスを改善するための新しい政策の提案を計画と実施を必要とする。同時に両地域が、所得のそれほど公平に分配され、都市と農村地域の均衡ある成長、および急速な貧困緩和で、経済成長を支えることができた東アジア諸国経験から学ぶことは多い。これらの国々の経験は、開発結果を左右する「初期条件」の重要性を確認するものである。農村地域における土地や生産的資産の公平分配は、貧困層の保健、教育、および就職の選択肢を改善する機会を増大させる、公平な社会政策によって補完された。

本書は示された地域間で共通とされる経験を、人間開発と農村地域のより急速な成長を促進するために、重大な問題への大切な教訓を提供している。本書で取り扱ったテーマの、開発と農村貧困緩和のための総合計画、農村経済の多様化、そして、農村貧困層のための資産サービスへのアクセスの改善などは、開発課題のすべてではないが、政策の選択肢とベスト・プラクティスを探るうえで重大な問題である。
中南米カリブ諸国と東アジアは、農村地域の貧困緩和のための政策やプログラムの実施に豊かな経験を持っている。セミナーでの討論や本書で発表された投稿論文は、常時開かれた対話の機会を、両地域の研究者や政策立案者の間で維持することの重要性を強調している。本書に示された対策のいくつかは、まだ発表中であるが、過去の失敗や成功の経験から学ぶのに時宜を得ていると言えよう。必ずしも一致していない論理的根拠に基づいたこれらの対策は、お互いを高める相違を持ちながら、かなりの程度で補完し合っている。これらは、社会経済的状況の考慮の必要性を明確に示しているが、同時に、ひとつの問題に適用できる異なったアプローチから、学習することの価値を指摘している。

どの場合も、社会計画の運営のための近代的ビジョンの開発の重要性は、経済成長と農村貧困緩和の革新的な解決への探求の中心に置かれた。どちらの地域でも、制度強化と參加型計画、および開発計画の実施が議論の中心であった。中南米とアジアの農村貧困問題に関する経験の検討によって、社会政策とプログラムの計画と運営に対する適応的アプローチの重要性が確認された。これらは、中南米のINDESによって採用された、キャパシティ・ビルディング・イニシアチブの基本原則である。

本書において示されたケーススタディーが、中南米とアジアの政策立案者の間ににおける、今後の一層の議論と知的交流の出発点として役立つことを願っている。

ノーラ・レイ・デ・マルランダ
INDES所長
EXECUTIVE SUMMARY

Priorities and Strategies in Rural Poverty Reduction
Experiences from Latin America and Asia

Diana Alarcón
Inter-American Institute for Social Development
Inter-American Development Bank

The papers included in this volume were discussed at the conference “Priorities and Strategies in Rural Poverty Reduction, Experiences from Latin America and East Asia” in June 2001. The conference was jointly organized by the Inter-American Institute for Social Development (INDES), the IDB Office in Japan (JPN) and the Japan Program, Integration and Regional Programs Department (INT) as part of a discussion series between professionals from Latin America and Asia on topics relevant to social development in both regions. Without any doubt, the extension, depth and persistency of rural poverty places this topic on top of the development agenda in both regions. The objective of the conference organized in Shimane, Japan was to exchange experiences gained in Latin America and Asia on the design and implementation of programs for rural poverty reduction with emphasis on the emergence of new stakeholders and the linkages between the rural economy and more dynamic sectors.

Rural poverty was chosen as the subject for the 2001 workshop in Japan due to the importance of this issue in the global fight against poverty. At the end of the twentieth century, the World Bank estimates that around 75 per cent of people living in extreme poverty were in rural areas and, in spite of rapid urbanization, rural areas will continue to be home to most of the poor, at least in the next quarter of the century. In most countries of the world, the overarching goal of reducing poverty and deprivation requires explicit strategies to stimulate the rural economy in an effort to expand the opportunities of rural residents. Through migration, the high prevalence of rural poverty is also the source of urban poverty and of increasing pressure on already tight labor markets and on the social infrastructure of already crowded urban areas. Effective policies for the reduction of rural poverty continue to be a critical ingredient in the construction of inclusive societies and a prerequisite of balanced growth.
In Latin America, in spite of rapid urbanization, rural poverty remains widespread. According to ECLAC\(^1\) (2002-2003), while 38 percent of the urban population in the region is poor, in rural areas poverty is as high as 62 percent. There are countries in Central America where the great majority of the population is poor: 77 percent in Honduras and 49 percent in El Salvador. Even in large countries like Brazil or Mexico, rural poverty afflicts large segments of the population: 38 and 41 percent, respectively.\(^2\)

In the last 15 years, Latin American countries have engaged in comprehensive programs of economic reform aimed at reestablishing macroeconomic stability and greater integration in the world economy. While economic liberalization provides new opportunities to foster growth in the region, it also creates new challenges, particularly in the rural sector, where the structure of production is quite heterogeneous. Medium and large rural enterprises, including foreign firms, are becoming successful exporters of agricultural and agro-industrial products; but smaller producers, mostly of traditional crops, have greater difficulties competing in the new economic environment.

Social policies for poverty reduction in rural areas need re-evaluation to respond to these new challenges. Effective programs of poverty reduction require integrated rural development programs to be designed to improve the competitive position of rural producers, diversify the sources of income for rural workers and expand the opportunities of rural residents with greater investment in social infrastructure, health and education.

The collection of papers in this volume addresses some of these issues. In the first section we discuss the development strategies adopted by countries in Asia and Latin America and their impact on rural poverty. Second, we discuss the experience of countries in Asia and Latin America in their attempts to diversify the rural economy by incorporating greater processing of traditional production and also by expanding the opportunities of micro and small enterprises to supply new products and services. In the third section we include a review of innovative programs designed to expand access to credit markets to the rural poor as a way to resolve one of the major constraints faced by poor rural producers: a lack of financing to expand their productive potential and engage in new economic activities. In the last section we present the role of regional development institutions promoting rural development for poverty reduction.

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\(^2\) The years corresponding to the percentages used are the following: 2002 for Honduras and Latin America overall, 2001 for El Salvador and Brazil, and 2000 for Mexico.
Discussions in the seminar were not intended to reach an academic audience; emphasis was placed on the discussion of social practices useful in the design of alternative policies, programs and projects. Professionals invited to participate in the conference were selected for their experience in the design and implementation of alternative programs for the reduction of rural poverty. Throughout the discussion we adopted a comparative approach, trying to identify the lessons learned from the implementation of such programs in the context of Latin American and Asian countries. In the compilation of conference papers, we have followed the same comparative perspective in each section.

I. Strategies of Development and Rural Poverty Reduction

Papers in this section provide a summary record of the incidence and evolution of rural poverty in Latin America and Asia in recent years. Through a review of long-term trends, Albert Berry presents evidence of important reductions in the incidence of rural poverty in Latin America, which came particularly fast during the period of rapid growth (1945-1980). Income poverty decreased from around 65% in 1950 to about 25% by 1980. The crisis of the 1980s pushed this back up to about 35%, from where it has fallen only marginally since modest regional growth returned in the 1990s. Other measures of welfare also improved; data on education, housing conditions, life expectancy and other indicators show significant improvement over this long period of time. The slowdown of poverty reduction in recent years has clearly been associated with slower growth in the economy and most likely with a tendency towards greater inequality in the distribution of income.

Some of the questions addressed in Berry’s contribution to this volume are the prospects of once again making headway with rural poverty reduction in the context of the structural reforms adopted by most countries in the region since the 1980s. Evidence so far shows that expectations have not been met in that economic reforms would contribute to correcting the bias against rural development characteristic of the previous period of growth. Rural poverty reduction, so far, has been associated with growth in the economy, even though redistribution of income would be an important source of poverty reduction given the great inequalities that characterize Latin American development. Part of the problem, to date, has been the lack of adequate growth in the region and the evidence of rising inequality in a number of countries. As a result, Berry argues, “the incidence of poverty, both overall and in rural areas, is at about the same level as 20 years ago.”
The countries (or regions) that have experienced the fastest reduction of rural poverty had the following characteristics: i) fast growth of both agriculture and rural non-agriculture; ii) a relatively equitable distribution of land; iii) a good base of rural infrastructure, including roads, irrigation works, communications, etc.; iv) good, broad systems of education and health care; v) high rates of savings and investment in the rural economy, often involving investment of agriculture-based savings in non-agricultural activities; vi) an effective system of research and extension, which not only reaches agriculture as a whole but especially the smaller, poorer farmers and the regions where they are concentrated; vii) a price system which is not biased against the products sold by the rural poor; viii) socio-political stability, low levels of violence and clear laws and rules on rights to land, and water; and ix) falling birth and population growth rates.

According to Berry, these features define some of the challenges posed by the severity of rural poverty in Latin America, especially when taking into account the high level of absolute poverty as compared to the average income levels of the region. In addition, policies of poverty reduction in rural areas will have to address the particular needs of small producers (in agriculture and non-agricultural micro-enterprises) which account for 80-90% of the rural labour force, as well as the needs of indigenous people and those of African descent, who represent a large proportion of the rural poor. In Latin America an important issue to consider in the discussion of alternative policies for the reduction of rural poverty is the fact that pockets and regions of remaining poverty typically have a long history of low incomes, usually related in part to subpar resources (Northeast of Brazil, Southern Mexico, Southern Colombia, parts of the highlands of Peru, etc.) and in part to weak policy. Can these concentrations of poverty be eradicated by the same policies that work elsewhere, or do they need stronger doses or even qualitatively different policies?

Some reasons for optimism, according to Berry, include the impact of migration to urban areas and decreasing rates of population growth as a way of reducing pressure on rural areas; progress in education has also been important to raise the entrepreneurial potential of rural areas, the possibility of improving the quality of local governments, and the potential to improve productive linkages with urban activities and non-farm rural occupations. But one of the missing elements of effective policies for rural poverty reduction is yet to be re-established in the new context of development in the region: the role of effective sectoral policy to address the many challenges and missing links of a strong rural policy package.

Alain de Janvry and Elisabeth Sadoulet provide further evidence of recent trends in rural poverty in Mexico and Central America. They argue...
that poverty in the region is mainly a rural phenomenon, and even more so in the case of extreme poverty. The high incidence of rural poverty (from 23% in Costa Rica to 80% in Honduras) means that the number of rural poor is increasing, in spite of some decrease in overall poverty and the cost of economic instability is high. There is high and rising inequality in rural areas, as well as an urban bias in the provision of basic services. The conclusion they draw from this brief review of aggregate trends is that “while the region has been relatively successful in managing macroeconomic adjustments, it has not been effective in reducing poverty and inequality, with the rural sector remaining a large reservoir of poverty, especially extreme poverty, and a generator of poverty for the urban sector.” Thus, any strategy of poverty reduction in Mexico and Central America must necessarily address rural poverty.

De Janvry and Sadoulet identify lack of control over income-generating assets (including natural, human and social capital) as the main determinants of rural poverty. Given the heterogeneous asset endowment of the poor, there are multiple routes out of poverty and the critical factor to escape from poverty is to gain control over minimum thresholds in asset endowment. This argument is validated by the authors’ micro-analysis of poor communities in Mexico, showing the different combination of assets that help households escape the poverty trap. Accumulation of human capital and remittances have the potential to become highly effective strategies of poverty reduction through the creation of “pluriactive paths” to raise rural household income. An interesting finding in this study is the importance of off-farm income in rural areas, stressing the importance of pluriactive strategies for poverty reduction. Among poor ejidos in Mexico, off-farm income may be as high as 80 percent of total household income. According to the evidence, however, success in getting access to multiple sources of income depends on having secondary education and a regional context that provides employment opportunities to rural workers.

Additional factors that constrain the capacity of the rural poor to escape the poverty trap is their high exposure to shocks, with the corresponding high levels of risk aversion and high inequality that characterize the rural economies of the region. Provision of rural safety nets and risk coping mechanisms is thus central to any strategy of rural poverty reduction as well as mechanisms to improve access to land, especially “among rural households with low education, and in regions with low supply of non-agricultural employment opportunities.”

Empirical analysis presented by the authors about the determinants of rural poverty point to the importance of two factors: lack of access to as-
sets (especially irrigated land, secondary education and social capital, with emphasis on ethnicity) and the regional context of development. These factors have important implications; any policy of poverty reduction must include explicit strategies to improve the regional context of development with emphasis on the creation of non-farm employment opportunities and the reduction of existing inequality. It is also essential to “increase control over productive assets by the rural poor, and thus secure economic inclusion, particularly in the perspective of pluriactivity.” Emphasis on these two issues is “part of the ‘new’ approach to rural development” that “aims at modifying these two determinants, improving the quality of the context in which assets are used, through regional development to generate local growth, access to assets, and improved collective action for economic inclusion.” This perspective is contrary to “the social welfare approach to rural poverty reduction that has dominated the investment agenda of governments and international lending agencies in the last decade.” In the paper, the authors “explore the opportunity to reorient rural development initiatives, moving from welfare-mitigating public expenditures to the territorial reordering of rural areas in support of growth and poverty reduction.”

The papers of Khan, Hayami and Chowdhury present the experience of Asian countries in the implementation of policies for poverty reduction and the role played by different stakeholders. 

Azizur R. Khan argues that the single most important factor to reduce poverty on a sustainable basis is the conversion of the labor resources of the poor into income entitlements. Such results can be achieved by “increasing wage employment; increasing real wages through a rise in labor productivity/labor demand; increasing the opportunity for self-employment for poor workers; enabling the poor to improve their productivity in self-employment; and improving the terms of exchange for the output of their self-employment.” Thus, a development strategy focused on the elimination of poverty in general and rural poverty in particular must contain a combination of these factors: rapid labor-intensive growth; promotion of self-employment through productive entrepreneurship; improved labor productivity through health, training and education; improved terms of trade for the products sold by the poor; and the provision of transfer income for households with inadequate labor endowments.

The Republic of Korea and Taiwan are the most recent examples in East Asia of successful development strategies with important reductions in rural poverty in a relatively short period of time. Egalitarian land reform at an early stage of development was supplemented by: improved technology; access to credit; improved infrastructure; and improved terms of trade for agriculture to generate fast growth in rural areas. At
the same time, rapid growth of labor-intensive manufacturing facilitated the absorption of migrant workers to urban areas and the natural growth of the labor force. State intervention played a key role in shaping the overall development strategy based on rapid, employment-friendly economic growth. “This was brought about by a system of direct promotion of worthwhile industries; public investment in the development of infrastructure; the creation of an incentive system that induced a high rate of saving and the direction of investment to socially profitable industries; and sound macroeconomic policies.” At the same time, “large public investment in education quickly resulted in universal literacy and a sharp increase in the efficiency of the labor force. Rapid increase in employment, accompanied by a rise in real wages at about the same rate as the rise in per capita income was instrumental in promoting equality in the distribution of income and sharply reducing the incidence of poverty both in rural and urban areas.”

As the experience of Korea and Taiwan illustrates, rural poverty reduction cannot be achieved in isolation, irrespective of growth in urban and non-agricultural sectors. “Coordinated development of the entire economy is a precondition for the development of the rural economy and the elimination of rural poverty. Successful poverty-reducing growth is characterized by a rapid transfer of labor from agriculture to non-agricultural activities. Thus a development strategy leading to rapid overall economic growth is an essential element in the strategy for alleviating rural poverty.” Khan argues that Korea and Taiwan were successful in eradicating rural poverty in their early stages of development thanks to the strategic action taken by the State to create the initial conditions for egalitarian distribution of productive assets among the rural poor (most importantly land); and also because of strategic interventions to implement policies and create institutions to promote productivity growth (increasing the income of the poor) by directing investment to basic health and education; as well as by promoting a labor intensive development strategy that created employment opportunities in urban areas and the conditions for further growth in modern, urban activities.

Yujiro Hayami takes a longer-term view of the role the agricultural sector played in the economic history of Japan, the evolution of rural poverty and the role of the State in resolving the various challenges posed by the rural sector in the period 1885-1970. This longer-term perspective taken by the author is particularly useful to illustrate the way Japan was transformed from a low-income developing country into one of the richest nations in the world; from a country with a high incidence of rural poverty to one where, by the 1960s, the income of agricultural workers was not
very different from the income received by workers in the manufacturing sector and the per capita income of an agricultural and non-agricultural household was similar. Interestingly enough, the gap between the income levels of urban and rural households was narrowing at a time when real per capita income in Japan was slightly lower than in Western Europe.

Hayami identifies three stages of rural development in Japan: a stage dominated by the "food problem" from 1885 to approximately 1900 (or perhaps even until the First World War); the "poverty problem" stage, from the beginning of the century until the 1960s; and the third stage, dominated by the "agricultural adjustment problem" in the 1960s. Government policies changed to deal with particular challenges posed by these three stages; from those oriented towards increasing domestic production and a marketable surplus of food during the first period, to social policies aimed at alleviating the poverty of peasants in order to prevent social instability and disruption during the inter-war years in the second stage. From the 1960s, during the period of agricultural adjustment, government policies were designed to support farm income by various protective means. What is interesting in this brief typology of rural Japan is the role played by the State; not only responding to the interest of various stakeholders, but with a strategic eye on the importance of keeping balance in the growth of the agricultural and industrial sectors. In that sense, agricultural development in Japan and rural poverty reduction did not occur in isolation, rather it was part of a larger strategy of development where the State played a key role in shaping market mechanisms and their impact on social welfare.

Abdul-Myeed Chowdhury argues that, "South Asia, (comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) has emerged … as the poorest, the most illiterate, and the most malnourished region in the world. Over 40 percent of the world’s poor live in South Asia.” Fast rates of urbanization, partially explained by migration from rural areas, are increasing the incidence of urban poverty, but poverty in the region is still largely a rural phenomenon. Governments in the region have addressed the challenges of "fighting hunger, food insecurity, unemployment, illiteracy, diseases, and malnutrition" through rural development projects, but a careful review of the experience of Bangladesh reveals that policies to promote rural development were biased towards better-off people until the 1990s, when the government started to adopt more specific programs to address the needs of the rural poor.

The author argues that insufficient government response to rural poverty and weak institutions at the local level, compounded by problems of corruption, gave rise to a strong NGO sector involved in the delivery of
basic services to the poor: health, nutrition, education, literacy, programs for employment creation and training, income generation, credit and savings, commercialization and many others. The success of NGO programs to expand access to credit by the rural poor has gained Bangladesh international recognition. The Grameen Bank is probably the largest and best-known initiative in this field.

This chapter offers detailed descriptions of programs executed by the Bangladesh Rural Advancement Committee (BRAC) under different modalities. BRAC is now the largest NGO in Bangladesh with a substantial contribution to national GDP; it is specifically oriented to benefit the poorest of the poor in rural areas with a methodology that aims to eradicate poverty by empowering the poor. Its multi-sectoral programs in health, nutrition and sanitation, education and literacy, employment and income generation, credit and savings, social development, processing and marketing, enterprise and human resource development have spread to all parts of the country; with particular focus on employment and income-generating projects.

In the context of countries with weak institutional structures, Chowdhury emphasizes the importance of developing effective NGO-government partnerships in the implementation of poverty alleviation programs and pro-poor policies. Since the poor have no access to positions of power and have no influence in the formal mechanisms of decision-making, Chowdhury says, the main objective of any program for the reduction of poverty should be the empowerment of the poor themselves.

II. Poverty Reduction Programs and Rural Development:

Diversification of the Rural Economy

Contributions in this section address the diversity of rural sources of employment and income and their relevance to reducing rural poverty. Contributions in this section introduce the experience of programs aimed at strengthening the diversification of rural economies, chosen from among those that have a clear impact on rural poverty reduction: agro-exporting activities, agro-industrial projects, non-agricultural rural employment, and subcontracting arrangements.

Octavio Damiani presents a comparative study of three regions in Brazil that share similar characteristics: the same geography and endowment of natural resources, the same macroeconomic conditions and regional policies and similar investment benefits from federal agencies in infrastructure for irrigation. Yet, only one region, Petrolina-Juazeiro, was successful in developing high-quality export-oriented production with
important impacts expressed as increasing rural wages, improving skills of the rural labor force, and improving working conditions.

Through detailed analysis of all factors involved, the author rejects simplistic arguments previously offered by other studies that explain the successful experience of Petrolina-Juazeiro as a result of the operation of “free market” mechanisms, successful private initiatives, government investment in infrastructure, or strong regional “progressive leadership”. Instead, he argues that positive outcomes were the result of the key role played by the State, with agencies from the federal government using “innovative practices in four major areas: 1) the management of large-scale irrigation investment, including the selection of beneficiaries, the management of subsidies to irrigation, and the pressures on growers who received subsidies to perform well; 2) the relationship with growers’ associations to solve collective action problems associated with exporting; 3) the introduction of high-value crops and new technologies among small farmers in irrigation projects; and 4) wage negotiations between growers and rural wage workers.”

The evidence presented by Damiani for the case of a region in Brazil suggests that the effects of globalization on the rural poor and the expansion of non-traditional rural activities can have important positive impacts on the rural poor. “The promotion of labor-intensive high-value crops, which at the same time require a high proportion of permanent, skilled labor, is likely to strengthen the power of unions and their capacity to negotiate improvements in wages and labor conditions.” In addition, the case of Petrolina-Juazeiro shows that “governments may greatly influence the labor-related effects of local processes of economic growth in unexpected ways. Attracting outside entrepreneurs to establish in a backward region may relate not only to objectives of promoting economic growth, but also to bringing new values and institutions, as well as a less antagonistic social structure. Finally, consumers’ views may have great weight in decisions that firms make with respect to labor standards and technology.” The author concludes that governments and NGOs can educate consumers and buyers (such as supermarkets) about the labor-related effects of the produce they buy. The influence of consumers’ preferences for “labor-friendly” products may be greater than laws and regulations.

Libardo Ochoa presents the “experience of a partnership between agricultural producers and other actors who were able to transform traditional producers into successful exporters of hot chili paste in the Municipality of Dagua in Cauca Valley, Colombia.”

This case study shows the role NGOs can play in promoting poverty reduction projects by establishing creative forms of association between
various rural actors: ASOPROCAT, was a community-based organization that suffered from low credibility due to low management capacity and negotiating skills; the Municipal Agricultural Technology Transfer and Assistance Unit; the State-owned petroleum company; Hugo Restrepo & Co., a private firm; and the Carvajal Foundation, a non-governmental organization. All these actors worked in association to develop new opportunities to improve the living standards of rural producers through the export of hot chili pepper paste, a product with pre-existing demand in the international market.

This project was developed in a context of deteriorating living conditions and weak institutions in rural areas. Decentralization and decreasing government intervention in the economy led to the disappearance of many institutions that had provided non-financial and financial services to poor small farmers. The transfer of responsibilities to the local level was not matched with enough resources. Also, low economic return on most Colombian agricultural products, high interest rates, insecurity, rural violence, low competitiveness and the absence of a clear and stable agrarian policy all led to a decrease in rural investment and increased unemployment.

The project to transform poor rural producers into successful exporters was initiated by the Carvajal Foundation. Priority was given to the rural poor who had minimal degree of organization (social capital), access to land and basic infrastructure (physical capital), and motivation (human capital). “The role of the Carvajal Foundation was to motivate different institutions to participate in the project complementing each other’s resources to reach maximum results with limited resources.”

Some lessons learned through the implementation of this project can be summarized as follows: the importance of maintaining good communication among participants; the importance of working in alliance and building minimum consensus among different actors, especially when resources are scarce; the advantage of targeting stable export markets; the creation of proper incentives to motivate both individual and collective interests; the importance of creating mechanisms to insulate producers from external variables outside the project’s control (i.e. securing contracts in dollars to prevent the impact of exchange rate fluctuations); and the importance of strengthening community-based organization by showing their relevance to the interest of their membership.

At the time this chapter was written there was no formal impact evaluation of the project but some visible effects included the consolidation of ASOPROCAT as a community organization and as a point of reference for other communities in the region, an important increase in the income
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level of participant families, and a strong alliance between the community, the local government and the private company; plus the fact that clients in foreign countries were satisfied with the quality of the exported product.

One of the most important factors of success was the market orientation of the project since its conception. The decision to work with hot chili peppers was based on the fact that commercialization was ensured and prices were pre-established (and dollar denominated), which made it relatively simple to calculate the profitability of the project.

In the author’s opinion, “one of the most pressing problems in rural Colombia is the lack of opportunities for small farmers and their communities; especially young people have few options to make a living and frequently join armed groups, illicit crop production or drug trafficking. For the same reason, they become fully committed and have the will to improve their living conditions when they are offered opportunities to generate income in legal and peaceful ways, to grow as individuals, and to serve as role models to other communities and their own. They need an opportunity to assume responsibility for their own development.”

The next chapter presents the experience of a development program to support the diversification of traditional sources of income among rural women in Mexico. Nuria Costa argues that despite increasing urbanization, the absolute number of poor people in rural areas has increased and the average size of rural communities is decreasing due to continuous migration to urban areas. In rural areas there is a strong presence of indigenous people and a high incidence of extreme poverty with some of the lowest indicators of human development, especially among women. Greater dispersion of the rural poor further complicates the design of programs for poverty alleviation.

The program Women in Rural Development was part of a larger strategy of the Mexican government to promote cooperation among producers to reduce input costs and increase the value added to the final product by promoting the creation of production chains with special consideration to the role of women and youth. The main objective of the project was to promote the diversification of the rural economy through competitive and sustainable productive alternatives that make use of local resources and appropriate technologies with emphasis on training and technical assistance. This program was created to respond to the trend observed in Mexico towards the “feminization of agriculture” and is aimed at enhancing women’s ability to guarantee food security and higher household income.

Through the promotion of different forms of association, Nuria Costa argues that one of the most important contributions of the program was to promote stable networks of women at the local and regional levels: support
the organization of women’s groups to foster growth of non-agricultural micro-enterprises as a way to improve the competitiveness and profitability of women’s activities. Particular objectives of the program were to: i) increase the capacity of women’s groups to identify their own investment opportunities through gradual elimination of government subsidies; ii) encourage backyard activities within the family to promote food security; iii) support technological improvement through transfer, adoption and exchange of technology, using the services of traditional extensionists and national training programs; iv) promote the rational exploitation of natural resources, to protect traditions, culture and community organization; v) promote greater participation of women at the community, regional, state and even national levels; vi) incorporate continuing education and training to maximize the potential development of women; vii) incorporate methodologies to assess results vis a vis planned objectives; and viii) identify, consolidate and disseminate successful experiences to promote wider participation of women in similar projects in other regions.

Nuria Costa illustrates the operation of this program in one region in Mexico (the state of Puebla), where successful implementation was challenged by problems that are very typical of the situation found in some of the poorest rural areas in the country: the great majority of the population is indigenous and illiterate; there are very high levels of alcoholism and violence within the family; many of the women participating in the projects are single mothers or have husbands who migrated to the cities or other states in search of employment; and there is a tradition of rather paternalistic government support that does not generate sustainable productive activities to reduce poverty.

While a formal evaluation will be needed to assess measurable results, “the organization of women’s groups has helped empower them in their role as decision makers within their own groups, within their households and communities. The creation of micro-regional networks and participation in regional training tours has helped to strengthen links of solidarity among various groups and empower women’s organizations at the regional level. Permanent training activities have improved women’s productive and managerial skills. Increasing income and an increasing supply of self-produced food has improved the diet of families and helped to diversify consumption with the incorporation of new vegetables, animal proteins and grains. Diversification of production in women’s groups also have a demonstrational effect on other producers who are adopting new technologies and products to diversify the traditional crop mix. The majority of groups have savings and reinvestment funds to support the sustainability of processes and reduce existent paternalism.”
In addition, implementation of the program increased awareness among policy makers and institutions in charge of rural development of the importance of incorporating rural women in the design of policies and programs and of the use of statistical information as a way to generate awareness about women’s issues within the Ministry of Agriculture and other government agencies.

The contributions of Chien-Zer Liu, Dong-Phil Lee, and Somporn illustrate different ways in which countries in Asia have supported diversification of the rural economy and their impact on poverty reduction. Chien-Zer Liu uses the experience of Taiwan to highlight the important role played by government in the transformation of the rural sector, including a quick reduction in the incidence of rural poverty and balanced economic growth. From the early stages, the agricultural sector was considered an essential component of the overall strategy of development in the country: Taiwan’s agriculture was the foundation of rapid economic development and strong sectoral links between agriculture and industry were carefully established as necessary components of rapid economic growth. Taiwan’s development strategy was: “To foster industry with the aid of agriculture and to develop agriculture with the support of industrial development.”

“Post-war economic development in Taiwan can be divided into three phases. In the first phase, land reform and the creation of farmers’ association were the means to strengthen the agricultural foundations of rural production. A comprehensive land reform program gave farmers a strong incentive to increase and diversify production. In the second stage, construction of irrigation facilities and the adoption of labor-intensive technology improved productivity and increased the purchasing power of rural people. Stronger farmers’ organizations helped to increase the participation of farmers in rural development and increased their collective bargaining power.” A relatively equal distribution of assets and income in rural areas created the basis for a rapid decrease in the incidence of rural poverty and fast rates of growth in spite of the fact that average landholdings remained fairly small.

In the third stage, comprehensive land reform and further investment in infrastructure helped the rural sector move away from rice production, mainly to a more diversified crop mix and also to further diversification into non-agricultural activities. By 1995 households in rural areas received two thirds of total income from non-farm sources and although average rural income was lower than the average in urban areas, its absolute value increased continuously. Moreover, “net receipts from farming do not measure farmers’ welfare. Family budgets only partially reflect the
availability of social services, amenities, medical care, education, transportation, communication, housing, and electric power. Another important measure of farmers’ welfare is the relatively high level of organization of rural communities, which gives them the opportunity to voice their concerns and increase access to public services. Once account is taken of these issues, rural people in Taiwan have enjoyed notable improvements in the last three decades.”

Chien-Zer Liu concludes his detailed evaluation of the strategies of development that have guided the rapid transformation of the rural sector with an outline of some of the challenges facing rural Taiwan today: the reorganization of physical space to expand the living space of rural families, improving environmental protection and preserving historical values. The author argues that, once again, further diversification of rural life to include enhancement of its historical values and tourist attractions requires the design of an integrated approach to the development of “basic public facilities, renovation projects, provision of basic infrastructure and recreation facilities, construction of sports grounds, parks and green areas; and improving the quality of transportation and environmental protection.”

The Republic of Korea is the other country in Asia where the diversification of the rural sector and fast poverty reduction was the result of comprehensive land reform and carefully designed rural development policies. Dong-Phil Lee reviews the experience of the Republic of Korea promoting the industrialization of rural areas as a strategy to reduce rural poverty and promote balanced national development. Through the experience of one of the most popular programs of rural industrialization, the Rural Industrial Park Program (RIP), the author illustrates the policy implications of rural industrialization, which requires significant investment in infrastructure and transportation, electricity, and telecommunications, including market information systems.

Rapid growth of wage income in small and medium-size industries in rural areas, the processing of agricultural products, and wages from temporary work in the construction and service sectors, have resulted in a substantial reduction in rural poverty in Korea since the 1960s, as well as an increase in non-farm income as a percentage of total household income in rural areas. In spite of these changes, fast-growing wages in urban areas and relatively stagnant prices for agricultural products have generated a widening gap between urban and rural family income.

One of the main instruments used by the Korean government to support diversification of the rural economy was the promotion of rural industrialization through the Rural Industrialization Park Program (RIP).
This provided attractive incentives for the creation of new small and medium-size enterprises and for the reallocation of urban firms to rural towns. This program had an important impact on the creation of non-farm employment, especially for non-skilled workers, and strengthened the growth of related industries, services and commerce in rural areas.

In the author’s opinion, the positive impact of this program for developing rural areas cannot be replicated in the future without introducing important operational modifications to reflect the rapid changes taking place in the Korean economy. The once-successful promotion of a ‘single’ model for the construction and management of the RIP must be replaced by more flexible designs to fit the specific characteristics and resource endowments of each region. But job creation and training will continue to be critical factors for success.

One of the lessons offered by the Korean program of industrialization in rural areas is the importance of applying a strategic and integrated perspective to the diversification of rural areas. The author argues that achieving the objective of improving household income to decrease rural poverty and promoting balanced regional development in the economy at large requires the inclusion of at least 4 factors: i) planned rural industrialization strategies to support the success of the RIP; ii) comprehensive support programs in coordination with all institutions involved; iii) the creation of differential incentives commensurate with the level of development of each region; and iv) the involvement of local governments in all stages of RIP development.

Somporn Hanpongpandh reviews the recent experience of Thailand in promoting the expansion of agro-business industrial activities as a mechanism to diversify the rural economy, increase exports and decrease rural poverty. Off-farm activities have always played an important role in the income of rural households. During the dry season, rural workers have traditionally resorted to temporary off-farm and non-farm employment. A number of rural employment-generation programs sponsored by the government and the high demand of labor in Middle Eastern Countries traditionally provided more permanent off-farm and non-farm employment. Rural-urban migration and international remittances have helped to increase rural off-farm income and reduce rural poverty.

The financial crises that started in 1997 turned the flow of rural-urban migration backward with as many as 1.2 million reverse migrants; they have revealed the remarkable capacity of rural areas to absorb migrants. New programs are being generated to help absorb this reversed migration, including utilization of migrants’ skills to start their own micro-enterprises and subcontracting orders from manufacturing firms in Bangkok.
this chapter, the author discusses different government initiatives implemented to strengthen the growth of new sources of rural income as a mechanism to prevent a major increase in rural poverty during the period of economic crisis in the late 1990s.

Although rural poverty is still a major concern, results from recent poverty alleviation programs have been successful when comparing the low incidence of poverty in Thailand with those of other countries in East Asia. Much of this success can be attributed to the level of coordination achieved among various initiatives by government, civil society, the private sector, and multilateral institutions to support the growth of local small-scale initiatives that generate production chains and processing of agricultural commodities for the domestic and international markets.

III. Poverty Reduction Programs and Rural Development: Informal Credit Markets and Microfinance

One of the main constraints to the development of the rural economy, and especially to the segment dominated by small production units, is the lack of access to formal credit markets. This section seeks to explore the experience of successful credit programs as an alternative source of funds for the rural poor.

Felipe Portocarrero and Edgar Búcaro discuss two innovative rural credit programs in Peru and Guatemala while Sumantoro Martowijoyo and Dao Van Hung present similar experiences in Indonesia and Vietnam.

The context of financial reform induced a rapid development of microfinance programs in Peru in the 1990s, making Peru one of the leading countries in this field in Latin America. Felipe Portocarrero discusses the experience of Cajas Municipales de Ahorro y Crédito (CMAC), a local government program that became one of the largest successful initiatives to expand the supply of financial resources to the rural poor in a relatively short period of time.

One of the most interesting features of this program is that expansion of credit to rural producers was supported by fast mobilization of deposits at the local level as well. In the year 2000, the value of local savings represented close to 70 percent of total credits granted. This is probably the best expression of consolidation of the program in regional markets in a relatively short period of time (operations started in 1996): they have been operating at market conditions, without subsidies, and have generated impressive profitability. The main factors explaining sustainability include the rationalization of operational costs through increased productivity and cost-control measures; a good quality portfolio and a reasonable degree of leverage.
The rapid expansion of credits granted by CMAC and the consolidation of operations may be the result of the growth and macroeconomic stability enjoyed by Peru at the time, but it is also related to the efficiency gains achieved in financial transactions. The long-term support of international donors and the Inter-American Development Bank in the areas of technical assistance, training and institutional strengthening were also key factors of success.

The rapid expansion of credits granted by CMAC also shows the absence of alternative sources of credits and credible financial intermediation in rural areas. Although this program was explicitly designed to target the rural poor and most of their clients were classified as micro and small enterprises, the average value of loans (US$633—US$979) eludes the vast majority of the rural poor. Portocarrero argues that there are still important challenges that will need adequate responses: the cost of credit remains fairly high in general, in spite of current low rates of inflation maintained in the country; the profitability of micro and small enterprises in rural areas is very low due to geographical dispersion and high risk of production; greater financial deepening in rural credit markets is required to increase the maturity terms of micro-credits and diversify the supply to include investment projects in construction and housing.

The author concludes that, “some factors that could help address the obstacles faced are: i) the creation of an enabling environment through the continuation of macro-economic stability; ii) avoidance of political interference in rural credit markets; iii) an increase in agriculture’s profitability thorough better infrastructure (roads, storage facilities, irrigation, technical advice, and so on) and risk-mitigating mechanisms (insurance programs against external shocks); iv) the establishment of a stable legal framework and an efficient judicial system; v) institutional reforms in current programs to create sounder governance structures and reduce the risk of political interference.”

Portocarrero argues that, “a policy to promote mergers among CMACs could increase their ability to diversify rural lending in different regions, lower their credit risk and generate economies of scale. Experience shows that “these institutions should also develop new products to finance investment in rural housing and home improvement, as well as new mechanisms to lower the cost of credit delivery that would enable them to reach poor clients in locations often outside the richest agricultural areas.”

Génesis Empresarial is a private initiative to support the expansion of basic infrastructure and development of micro-enterprises within poor communities in Guatemala through micro-credits and technical assistance. Edgar Búcaro presents a detailed analysis of the experience gained
by this organization it its attempt to respond to the needs of micro-enterprises and the poor in Guatemala by increasing the sources of credit available to them. Most micro-firms do not have the collateral and additional requirements to access regular credit lines. Most micro-enterprises that borrow money to expand operations end up paying interest rates far above market rates (in Guatemala they can be as high as 20 per cent a day). In recent years, several Private Development Organizations (PDOs) have expanded operations in Guatemala to include financial services to micro-enterprises; most of them acting as intermediaries between bilateral donors and beneficiaries. Genesis Empresarial is the only organization that operates with private banks, in addition to the administration of resources from donors.

Búcaro describes the conditions in which micro-enterprises operate in Guatemala: most of them are not legally registered and have no collateral to guarantee loans from formal credit lines. PDOs accept fiduciary guarantees from borrowers; simple individual or collective recognition of debt is frequently accepted to guarantee loans. The rapid expansion of Genesis Empresarial to include operations in 16 departments in Guatemala—virtually the entire country—demonstrates the large unattended demand for financial services among the rural poor. The success of this organization was based on the diversification of the services offered.

Rural communities are characterized by: high poverty levels; high levels of illiteracy; over-concentration in low-income agricultural activities and precarious occupations; low density of population; inefficient or non-existent infrastructure; poor transportation or none at all; lack of integration to urban markets; lack of guarantees to obtain loans from commercial banks. As a result, financial intermediation has: high transaction costs, given the low density of rural communities, scarce personal savings and the low value of the loans demanded; difficulties diversifying risks due to deficient communications and lack of market integration; and high risk due to the production cycles of the rural economy. Genesis Empresarial has tried to respond to these challenges by adapting loan facilities and institutional procedures to the needs of potential rural clients.

“An important factor that explains the consolidation of Genesis Empresarial is the diversification of sources of funds, which includes private banks (both national and foreign), international and bilateral organizations. An important principle in Genesis’ operations has been the principle of the sustainability of each credit program and each office. While geographical dispersion is one of the main characteristics of poor rural areas, Genesis has tried to reach minimum levels of ‘concentration’ of activities through the diversification of its portfolio in each commu-
The objective is to increase the level of productivity of individual loan facilities, decreasing transaction costs and increasing profitability. Adopting market interest rates to avoid subsidies has been key to guaranteeing the sustainability of operations.

This chapter concludes with a reminder about the importance of overall macroeconomic conditions to the growth and sustainability of financial intermediation. Even the best-managed projects will be at risk if there is economic, social or political instability in the country.

**Sumantoro Martowijoyo** describes the century-long history of microfinance development in Indonesia, which started with the establishment of village credit institutions in 1898 and includes a wide range of village-based, formal and semiformal microfinance institutions in rural areas. Despite the success of those microfinance institutions in sustaining operations with relatively little assistance, government policy has continued to use subsidized credit programs as a means of reducing poverty.

Sumantoro provides a careful summary of the experience of the BRI Unit system. BRI (the acronym for the People’s Bank of Indonesia in the local language) is one of the largest microfinance institutions in the country. It was founded in 1973 as a conduit to channel the credit component of a general rice-intensification program and was later transformed into a system of commercial banking units whose success shattered the myth that the rural poor do not save and cannot absorb and service loans.

Microfinance services have been an important part of the government’s strategy to reduce rural poverty for a long time. Though the BRI Unit System is not unique in that sense, what is interesting about this experience is the vast network of units providing extensive coverage throughout the country. By 2002, the BRI System had 3,700 outlets in all regions.

“The core business of the unit system is extending small loans and mobilizing savings to the rural poor. Other products and services are added only if they support core activities.” Fundamental criteria for the development of new products include: customers’ needs identified by field surveys; profitability to guarantee sustainability of operations without depending on subsidies; and simplicity of operations which means keeping a limited number of broadly marketable products to simplify supervision and accountability.

The last survey conducted to evaluate the impact of the BRI Unit System among people who had borrowed an average of $US 250 dollars for a period of 3 years in 1990 identified some elements of success of the program: 73 percent of poor rural borrowers had crossed the rural poverty line 3 years after taking a loan from BRI. Household income increased by 20 percent a year (higher than growth among non-participating households).
After three years of participation, profits earned by micro-enterprises grew by 93.4 percent in real terms; total employment increased by 18.2 percent a year and the use of hired labour increased by 13.7 percent. Purchases of assets increased among participating households: landless families used the profits of their micro-enterprises to buy small plots of cropland; borrowers who owned productive machinery increased from 14 percent to 26 percent; and borrowers who owned vehicles, used at least partly for business, increased from 28 percent to 44 percent. Sumantoro also provides evidence of improving living standards among participating households. In addition, "BRI's success in providing profitable non-subsidized financial services to the rural poor has strongly influenced government regulation of banks. In the banking reform of January 1990, the provision of subsidized liquidity credits from the central bank was reduced to only those supporting the development of cooperatives, preservation of food self-sufficiency, and the development of the eastern regions of Indonesia."

This particular experience of microfinance development in Indonesia sheds light on the elements of success in these kinds of projects: Sensible financial policies are important to maintain the viability of the units, especially highly positive interest rates to cover the high risk and costs of small transactions; There must be effective incentives for all stakeholders: performance-based incentives for employees and incentives for timely repayment of loans for borrowers; Decentralization of decision-making gives each unit manager authority for the operations of his/her unit with a clear system of accountability; Financial intermediation services must be provided, including savings and loans facilities, as opposed to serving as simple agents to channel targeted credit: in the experience of BRI, provision of savings facilities has been more important to most rural poor than granting credits; Effective investment must be made in human resources through intensive training, aside from salary and other incentives; Collateral must be accepted on a flexible basis and the social mechanisms used to guarantee loans.

Contrary to the long history of microfinance in Indonesia, Dao Van Hung reviews the recent introduction of the concept of microfinance development for poverty alleviation in Vietnam. Driven by the economic reforms introduced in late 1986, the economy of Vietnam is very dynamic and considered one of the most successful economies in transition. Economic growth rates and living standards of the majority of the population throughout the country have improved significantly. Vietnam, however, is still ranked amongst the poorest countries in the world.

In the battle against poverty, formal financial service providers like the Vietnam Bank for Agriculture and Rural Development (VBARD), the
Vietnam Bank for the Poor (VBP), and People’s Credit Funds (PCFs) have played an important role in providing financial resources to low-income households escaping from poverty and hunger. Credit extended to the poor and capital provided by the Government under national programs have also been important supplementary sources to help improve rural infrastructure.

Results obtained in the field of microfinance have been impressive, compared to results in the 1980s. Dao Van Hung analyses the experience of the VBP in the provision of credits to the poor. A number of major problems remain: the reach of formal microfinance institutions falls short of total coverage and low-income households still rely on informal credit through traditional networks of relatives, friends and private moneylenders usually charging exorbitant interest rates. Part of the problem is due to the decision of the government to subsidize small credits for the poor by charging low interest rates. In the author’s opinion, high transaction costs involved in the granting, supervision and collection of small loans along with low interest rates and shortage of staff have constrained the potential reach of micro-lending services for poverty alleviation. Major reforms will have to be introduced to microfinance practices in Vietnam to enable the system to respond to the large demand for credit among the rural poor.

Expansion of microfinance services to the poor in rural areas in Vietnam, according to Dao Van Hung, will depend on the way the government is able to resolve four critical issues: i) reforming current financial legislation to allow the operation of non-government organizations in the provision of micro-credits following international best practices; ii) establishing the institutional viability of VBP through the mobilization of savings and commercially sustainable interest rates and finding innovative solutions to the problem of how to operate in poor districts where the local capacity to save is limited, but where there is the greatest need for credit and financial assistance; iii) developing an effective long-term strategy to work in coordination with civil society organizations in the delivery of credit and savings services to the poor; and iv) improving the incentives of staff working at VBP to increase their commitment to reach poor rural households.

The author concludes with a series of recommendations based on lessons learned from the few years that microfinance services have operated in Vietnam. While there is certainly room to improve the efficiency and outreach of financial services to the poor, the author says that the impressive rates of progress made by Vietnam in recent years in reducing the incidence of poverty shows how much priority the government has given to the goal of reducing urban-rural inequalities through rural development.
and integrated policies for poverty alleviation. Increasing access to rural credit is one more element in an integrated strategy to expand employment opportunities in rural areas, improve infrastructure in poor communities and improve the living standards of ethnic minorities.

IV. Regional Development Institutions and Poverty Reduction: Strategic Directions and New Challenges

Three chapters in this section provide the strategic views of Regional Development Institutions on the issue of rural development and rural poverty reduction and the importance of these issues in their lending and assistance portfolios.

Ruben Echeverría outlines the strategic view of the Inter-American Development Bank (IDB) in meeting the growing demands of countries in the region. This agenda is a work in progress, put together on the basis of a broad multi-sectoral view of the rural economy and taking into account social factors, poverty and inequality, the environment, agriculture, the agro-industry and agri-food, development of micro, small and medium enterprises, and basic infrastructure. The chapter seeks consensus on the critical issues in sustainable development of rural areas, focusing on the complementarities of various areas of Bank activity and of the technical and financial multilateral and bilateral organizations working in Latin America and the Caribbean. The need to promote the rural economy from a territorial and integrated perspective is emphasized.

This chapter stresses the serious rural poverty situation in the region and puts emphasis on the potential for the agriculture and agro-industrial sectors to generate growth, reducing rural and urban poverty and improving the management of natural resources. This chapter also analyzes lessons learned and the need for a new approach that promotes policies and instruments to reduce rural poverty. Investment areas covered by IDB are: consolidation of sectoral reform programs; modernization of the public sector and of technology services, sanitation and information; promotion of off-farm rural activities; land and water management; development of rural financial markets; sustainable management of natural resources; infrastructure and quality of rural life; and human resources and training. Finally, emphasis is put on the importance of inter-agency collaboration to improve the effectiveness and efficiency of the services provided to the countries of the region.

From the different ways of reducing rural poverty, some of the lessons the IDB has learned from policies to support to rural development in Latin America are: i) The magnitude, complexity and persistence of rural poverty
in the region have not been approached with broad-based strategies, and
have not been addressed with sufficient and continuous allocations of re-
sources; most projects are isolated and discontinuous, with little relation
to national strategies. The rural poor do not generally have the power to
negotiate, nor are they the favorite clientele of governments and funding
agencies. This translates into an absence of committed personnel prepared
to carry out these programs and means that there is little analysis on the
economic, social, and cultural contexts in which interventions take place;
ii) economic growth is a necessary but not sufficient condition for the re-
duction of poverty. Hence, targeted interventions are required, especially
under the conditions of great inequality and low educational levels widely
present in rural areas; iii) development of the food and agriculture sector
is necessary for economic growth and for the reduction of rural and urban
poverty; iv) countries which implemented economic policies with strong
negative biases toward the rural areas were not successful in modernizing
their economies, even in cases where partial subsidies were used to correct
the biases introduced through relative prices; v) productive investment,
development of infrastructure and adoption of technologies must accom-
pany trade liberalization, in order to ensure greater economic efficiency
and a higher level of well-being for the rural population; vi) rural devel-
opment programs have been relatively inefficient when not accompanied
by economic policy that, on the one hand, permitted farm production
to be profitable while facilitating access to productive resources for small
producers with agricultural potential, and on the other, promoted non-ag-
ricultural rural activities; vii) low level of participation of the beneficiaries
of rural development projects has led to components not responsive to
demand, inappropriate interventions in terms of the pace of absorption in
the communities and initiatives that lack sustainability.

From this set of lessons learned, the IDB highlights the need to work
toward a new regional consensus that will improve the design of rural
policies; especially in light of poor results produced by 15 years of sta-
bilization and structural adjustments with precarious results in terms of
low growth rates, persistent high levels of poverty, worsening income
distribution, and declining profitability for crops that are relevant to the
poor. Thus, there is a need to define new priorities of development in
the context of more open market-based economies, changing consumer
preferences and rapid technological change. In this context, sectoral pol-
icy should encourage conditions for private decisions to improve access
to new product lines, guaranteeing a management and decision-making
process based on the quality of information and ensuring greater deci-
sion-making autonomy, including proper risk assessment.
The role of the IDB is to support national governments as they identify their own development priorities within a new paradigm that calls for a new territorial approach to the rural economy that will contribute to economic growth, sustain the use of natural resources, reduce both rural and urban poverty and improve the quality of life in rural areas. Some areas of investment where the Bank and other development organizations’ support could have substantial impact are briefly indicated as follows: i) consolidation of reform programs in rural areas to ensure consistency with macroeconomic policy; ii) modernization of the role of the State in rural areas with particular attention to re-defining institutional structures that will support a new paradigm of rural development; iii) promotion of rural off-farm production activities; iv) improvements in land access including support for land purchases by small producers or to consolidate traditional land reform projects, as well as exploring the possibility of taxing land in a way as to discourage unproductive holdings and decentralizing the administration of land taxes to local government agencies; v) development of rural financial markets, especially for small farming to be transformed in response to new market conditions, as well as to encourage non-agricultural rural activities; vi) sustainable management of natural resources; vii) improvements in infrastructure and the quality of rural life to make it possible to integrate marginalized areas in the national development process, decentralize government activity, reduce transaction costs and strengthen rural towns and communities through public investment and encouragement of private productive activity; viii) human resources and training to improve employment opportunities to strengthen basic organizational capabilities for the rural population and facilitate their full participation in rural development.

Echeverria concludes by stating that multilateral organizations can play a fundamental role in supporting countries’ efforts to achieve rural development using a medium- and long-range multisectoral approach to facilitate the mobilization of resources for strategic investment, systematic thinking through policy dialogue, dissemination of ideas and practices and the development of programs that incorporate economic reforms, institutional strengthening and investment projects in priority areas for improved impact on the region’s economic and social development.

In the next chapter, Dieter Bucher outlines the challenges and strategies of the Asian Development Bank (ADB) that has made “poverty reduction the Bank’s overarching goal. The ADB’s renewed efforts in poverty reduction are based on three main pillars: (i) promotion of pro-poor and sustainable economic growth, (ii) social development and (iii) enhancing good governance. This approach requires the ADB to move
from being a project-financing institution to being a more broad-based development organization which promotes policy reforms among developing member countries, assists in the development of physical and institutional capacity and finances projects and programs which are targeted at reducing poverty.

While the ADB’s approach to poverty reduction is not focused on sectors, but on people directly, ADB-financed programs and projects have a strong bias towards agriculture and rural development, social sector development in rural areas, rural infrastructure and rural finance. The justification for this approach is based on the fact that the majority of the poor in Asia and the Pacific live in rural areas.

From past experience of the generally weaker performance of agriculture and rural development projects, the Bank is moving towards a new approach, which includes some of the following issues: i) a broader focus “to include country-specific linkages between economic growth, poverty reduction and sustainable environmental development,” an approach taken through the recognition that economic growth, while important, is not enough to reduce poverty; ii) a more balanced focus on urban and rural areas to avoid macroeconomic policies biased against the rural economy; iii) a move from the “concept of food self-sufficiency to a concept that ensures food security, through a system of production and/or cash incomes/transfers;” iv) a move away from excessive focus on agriculture to the promotion of diversification of the rural economy including physical and social infrastructure development; v) towards the creation of “an enabling environment that leaves the basic decisions regarding the nature of activities undertaken in rural areas to households, farms or communities, (including community-based organizations or NGOs;” vi) governance and capacity-building to facilitate the involvement and commitment of all stakeholders to ensure successful rural development; vii) adaptive research with priorities determined locally and the promotion of public-private partnerships; viii) access to financial capital through supporting financial capital development in rural markets to replace the old approach of subsidized credits; ix) access to water as a scarce resource which requires the introduction of formal water markets, user rights/fees and watershed/irrigation management through farmers’ involvement; and x) access to land through enhancement of integrated property laws and the formation of effective land administration institutions.

Bucher concludes by reiterating that the main building blocks of a strategy for rural development and poverty reduction must be based on a holistic approach to enhance employment creation: by diversifying agriculture and non-farm activities and promoting stable and sustained eco-
nomic growth implemented by measures that contribute to meeting basic human needs, and by building social capital to ensure local ownership and empowerment of the poor.

Mya Maung evaluates different paradigms of development since the 1950s to argue that the neglect of agriculture and rural development, in favor of industrialization and urban growth, explains the high incidence of rural poverty prevalent in most Asian countries nowadays, especially in South Asia: except for a few cases, “nearly 80 percent of the poor reside in rural areas suggesting the predominance of poverty as a rural phenomenon.”

He argues that the establishment of the Center on Intergrated Rural Development for Asia and the Pacific (CIRDAP) in 1979 was based on “the need for integrating the theory and facts of rural poverty.” “Its approach to rural development encompasses a vast field of promoting growth, equity, stability and sustainability. Towards this end, CIRDAP uses different means to encourage member countries to formulate and implement rural development policies for the benefit of the poor. Its research department is engaged in continuous monitoring, assessment and critical analysis of ongoing rural development programs and their impact on poverty reduction. In addition to carrying on research, CIRDAP is concerned with the dissemination of best practices in rural development. It is also deeply concerned with capacity-building and human development by promoting participatory approaches, technical assistance and collaboration with different agencies at different levels.” Mya Maung concludes his brief overview of the role of CIRDAP in the region by establishing the importance of merging the theory and practice of rural development in the Asian region by promoting exchange of best practices and innovative research to address the complex issue of rural poverty reduction.

The summary of experiences provided by the authors in this book does not attempt to exhaust the many issues that are relevant to the main objective of rural poverty reduction; rather, they are an attempt to contribute to the discussion of best practices in an area of research that will require much more creative thinking and careful design of alternative policies to reverse years of stagnation of rural economies in most developing countries, widespread poverty and lack of opportunities. The review of experiences in this volume attempts to illustrate different ways in which programs and projects for rural poverty reduction have been implemented in particular development contexts and the lessons they have provided to practitioners and implementing agencies in other countries. Hopefully, each case study illustrates the things that have worked best and those that have failed to produce positive results for those whose daily preoccupa-
tion is how to apply theoretical propositions to the most imperfect world of project implementation.

References

農村の貧困緩和における優先事項と戦略

中南米とアジアの経験

序章

ダイアナ・アラルコン
米州社会開発研究所
米州開発銀行

本書に収められた論文は、2001年6月に関かれた「農村の貧困緩和における優先事項と戦略、中南米と東アジアの経験」と題する会議で討議されたものである。この会議は、米州社会開発研究所（INDES）、米州開発銀行（IDB）駐日事務所（JPN）、および、IDBの統合・地域計画局（INT）のジャパン・プログラムが、中南米とアジアの社会発展に関連する話題について、両地域の専門家による一連の討議の一部として、共同主催したものである。農村貧困の広がり、深さ、根拠な先表は考えており、この話題が両地域における開発議題の優先事項であることは疑わしい問題がない。日本の島根県で開催されたこの会議の目的は、特に新しいステークホルダーの出現、および農村経済のよりダイナミックなセクターとの関連に重点を置きながら、農村の貧困緩和プログラムの計画と実施における中南米とアジアでの経験を共有しうることであった。

農村貧困は、貧困に対するグローバルな取り組みにおいて重要であることから、日本で開催された2001年のワークショップの課題として選ばれた。20世紀の終わりに世界銀行は、極度な貧困生活を送る人々の約75パーセントは農村地域に住み、急速な都市化にもかかわらず、少なくとも今後25年の間、農村地域は貧困者の大部分を住む場所となり続けるであろうと推測している。世界の大多数の国において、農村に住む人々の機会を広げる努力を通じて、貧困と貧乏の緩和という最も重要な目標を達成するために農村経済を刺激する明確な戦略が必要である。人々の移住による農村貧困の広がりは、都市貧困の原因や、既に混乱した都市枠の、ただでさえ過密な労働市場や社会インフラに、一層圧力がかかり原因となっている。農村貧困緩和のための有効な政策は、引き続き共生社会の構築のための重要な要素であり、均衡成長の必須条件である。

中南米では、急速な都市化にもかかわらず、農村貧困は広がりつつある。ECLAC (1998) によると、中南米の都市人口の30バーセントが貧困層であるのに対し、農村地域では、貧困層は54パーセントにも達するとされる。中南米には人口の大部分を貧困層が占める国がある。例えば、ボリビアでは80パーセント、エルサルバドルでは62パーセントである。ブラジルやメキシコのような大きな国においてさえ、農村貧困は、それぞれ46パーセント、53パーセントというように、人口の多くを占め、悩ましい事態である。過去15年間、中南米諸国は、マクロ経済の安定性の再構築と、世界経済へのより進んだ統合を目指した経済改革の総合プログラムに関与してきた。経済の自由化は、地域の成長を助ける新しい機会を提供する一方で、特に、生産構造がかなり多様的な農村セ
クターにおいて、新しい問題を生み出している。外資系企業を含む大・中規模の農村企業は、農産物や農工業品の輸出業者として成功しつつある。しかし、小規模生産者で、主に伝統的作物を扱う者は、新しい経済環境下での競争にますます困難を強いられている。

これらのような問題に対応するため、農村地域の貧困緩和に対する社会政策は再評価されなければならない。貧困緩和の有効な計画は、総合的な農業開発プログラムが、農家の競争力を高め、農業勤労者の収入を多様化し、社会基盤、保健医療、教育分野へのより大規模の投資を行い、農村部に住む人々のための機会を拡大するよう計画されることが必要である。

本書に収録された論文は、これらの問題のいくつかを取り扱っている。最初のセクションでは、アジアと中南米諸国で導入された開発戦略と、それらの農村貧困への影響を論じている。次のセクションでは、伝統的作物をさらに加工することで、また、産業および小企業が新しい製品やサービスを提供する機会を広げることで、農村経済の多様化を試みたアジアと中南米諸国の経験を論じている。3番目のセクションは、貧困層の農家が直面している最大の制約へのひとつの解決方法として、農村貧困者の金融市場へのアクセスを広げるために計画された、革新的なプログラムについての検討を含んでいる。その制約は、生産能力を拡大し、新しい経済活動に従事するための資金供給の不足である。最後のセクションでは、貧困緩和のための農村開発を促進する地域開発機関の役割を示す。

セミナーでの討論は、研究者を対象としてのものではなく、代替的政策、プログラム、およびプロジェクトの策定に役立つ、社会活動によって話合いに重点が置かれた。会議に招待された専門家は、農村貧困緩和の代替的プログラムの計画と実施における経験をもとに選ばれた人々である。議論全体を通じて、比較アプローチが取られ、中南米とアジア諸国におけるプログラム実施から得られた教訓の確認が行なわれた。論文の編集にあたり、各セクションにおいて同一の比較的視点がとられた。

I. 開発と農村貧困緩和の戦略

本セクションに収められた論文は、近年の中南米とアジアにおける農村貧困の発生を伴う種の概要を提供する。長期のトレンドを通じて、アルパート・ペリエは、中南米における農村的貧困発生の減少に関する重要な証拠を提供する。その減少は、特に急成長期（1945~1980）の中南米で急激に進んだ。所得貧困の割合は、「1950年および65~80年まではおよそ25パーセントまで」下した。「この割合は、1980年の経済危機によって約35パーセントまでに押し戻され、1990年代に緩やかな地域的成長が戻ってからも、僅かしか低下していない。」その他の社会事情変化も改善された。教育に関するデータ、住宅事情、平均寿命、およびその他の指標は、この長期に渡る重要な改善を示している。近年の貧困緩和の進歩は、明らかに経済成長の純化と関連しており、また、所得分配の不均衡の拡大傾向と関連している可能性が高い。
本書に収録されたベリーの論文の中で検討されている課題のなかで、1980年代以来中南米諸国の大部分によって導入された構造改革によって、農村貧困緩和が再び進むことへの期待に関するものがいくつかある。これまでのところ、経済改革が、前回の成長期の農村開発特性に対する偏見の修正の一役を果たすという期待は満たされていないことが示唆される。中南米の開発を特徴づける大きな不平等を考えれば、所得の再分配が貧困緩和を重要な要素であるかもしれないが、農村貧困緩和はこれまでのところ経済成長と関連している。今後も、問題の一部をなしてきたのは中南米地域の発展不足と、多くの国々で増大する不均衡の事実である。その結果、貧困の発生のレベルは地域全体および農村地域のどちらにおいても20年前とほぼ同じである」と、ベリーは主張する。

農村貧困の最も急激な削減を経験した国々（または地域）は、次の特徴を持つものであった。「（1）農業と農村非農業の両方の急速な成長（2）比較的公平な土地の分配（3）道路、灌溉設備、通信手段、その他を含む農村インフラの優れた基盤（4）教育と保健医療の幅広い普及のシステム（5）多くの場合、農業ベースの貯蓄の非農業活動への投資が関与している、農村経済における高い貯蓄率と投資率（6）農業全体だけでなく、より小規模で貧しい農家と彼らが集中する地域を特に対象とする、研究や普及の有効なシステム（7）農村貧困者が販売する製品に対して偏見のない価格システム（8）社会政治的安定、低い暴力発生率、および、土地や水の権利に関する明確な法規制（9）出生率と人口増加率の低下。」

ベリーによると、特にその地域の平均所得水準と比較した絶対的な貧困の度合いの高さを考慮した場合、これらの特徴は中南米の深刻な農村貧困によって引き起こされる問題のいくつかを見通す。さらに、農村部の貧困緩和のための政策は、農村の労働力の80パーセントから90パーセントを占める小規模生産者（農業および非農業の小規模企業）の特定のニーズおよび、農村貧困者の大部分を占める先住民やアフリカ系住民のニーズに、取り組むようにしなければならない。中南米における農村貧困緩和のための代替政策の議論で考慮すべき重要な問題は、「一般的に、貧困状態の残る地域や地域は、低所得者の人々の長い歴史がある。一部は標準以下の資本によるものであり（ブラジル北東部、メキシコ南部、コロンビア南部、ペルー沿岸の一部など）、一部は、脆弱な政策によるものである」という事実である。「これらの貧困の集中化は、他の地域や国々で労を省いている政策と同様の政策によって解消することができるのだろうか？それは、それより強力な政策、または質的に異なる政策が必要なのか？」

ベリーによると、不適 подходとして挙げられるのは、農村地域への圧力を軽減するものとして、都市への移住の効果と人口増加率の低下などである。また、農村地域の起業実在力、地方自治体の質改善の可能性、都市活動と農村の非農業活動の生産リンク（連鎖）の向上などの可能性を高めるために、教育の進歩も重要
であった。しかし、農村貧困緩和のための有効な政策として欠けている要素の一つは、この地域の新たな開発の下でまだ再構築されていない。それら、多くの問題と、労働者総合政策として足りない部分に対処する有効な分野別政策の役割である。

アライン・デ・ジャンプリとエリザベス・サドレットは、メキシコと中央アメリカにおける農村貧困の最近の傾向についてのさらなる証拠を提供している。彼らは、この地域の貧困は主に農村部の現象で、極度の貧困の場合はなささらであると主張する。高い農村貧困の発生率（コスタリカの23パーセント、ボンジュラスの80パーセントまで）は、全般的な貧困は多少減少しているにもかかわらず、農村貧困者の数が増加していることを意味する。発展に伴う貧困緩和であっても不安定性によるコストは高い。経済が成長しているにもかかわらず、農村地域では不平等が大きく、さらに、基本サービスの供給は都市に限っている。この総合的傾向の併せて検討から、彼らが引き出した結論は、「この地域では、マクロ経済調整が比較的うまく行なわれているが、悪循環の緩和において効果が見られず、農村部門は貧困層、特に極貧層を抱える場所として、また、都市部門の資本を生み出すところとして残ったままである。従って、メキシコと中央アメリカの貧困緩和の戦略はすべて、農村貧困に取り組むものでなければならぬ。」

デ・ジャンプリとサドレットは、所得創出のための資産（自然資産、人間資産、および社会資本を含む）に対する管理の欠如を、農村貧困の主要決定要因として特徴している。貧困に異なる基本資産が与えられれば、貧困を克服するための手段がいくつかある。そして貧困から抜け出すための重要な要素は、基本資産の最低基準価の管理を図ることである。この議論は、著者のメキシコの貧しいコミュニティのマクロ分析によって証明され、貧しい地域が貧困の原因から逃れるのに役立つ異なる資産の組み合わせが示されている。人間資本の蓄積と送金は、世帯所得額を増やすための「ブリリアクティブ（複数活動的）な手段」を生み出し、貧困緩和にかなり効果の高い戦略となる可能性がある。当研究の興味ある発見は、農村地域における農業所得の重要性であり、貧困緩和にブリリアクティブな戦略が重要であることを強調している。メキシコの貧しいエイドのなかでは、農業所得が全て世帯所得の約80パーセントにも達する場合がある。しかし、複数の所得源を確実に獲得できるかどうかは、中等教育や農業労働者に雇用機会を提供する地域的背景があるかないかにかかっていることが明らかにされている。

農村貧困者の貧困の原因から抜け出すための能力を抑制する要素として、さらに、彼らがショックに耐えやすぐ、それに対応して危機回避度が高くなり、この地域の農業経済を特徴づける不平等が大きいことが挙げられる。従って、特に「教育レベルの低い農村世帯と農村雇用機会の少ない地域」では、農村のセーフティネットとリスク対応メカニズムの提供は、土地へのアクセスを広げるメカニズムとして異なる農村貧困緩和戦略の中核にある。
著者によって示された農村貧困の決定要因の実証的分析は、二つの重要な要因を指摘している。それは資産（民族性を重視、特に灌漑地、中等教育、および社会資本）へのアクセスの欠如および、開発の地域的背景である。これらの要素は重要な意味を持つ。いかなる貧困緩和政策も、農村雇用機会の創出と、既存の不平等の緩和に重点をおき、開発の地域的背景を改善する明確な戦略を含んでいなければならない。また、「農村貧困者の生産的資産に対する管理能力を高め、その結果、特にポルリアクティブの視点による、経済的一体性を確実にする」ことが非常に重要である。これらの二つの課題を重視することは、「農村開発のための“新しい”アプローチの一部であり、地方成長を生み出す地域開発、資産へのアクセス、および経済的一体性に向けて改善された集団行動などにより、資産が利用される背景の質を改善し、これらの決定要因を変化させることを目指すものである。」この考え方は、「過去10年間政府と国際的援助機関の投資議論を支配方、農村貧困緩和のための社会福祉的アプローチ」に関するものである。論文の中で、著者は、「福祉・緩和のための公共支出から、発展と貧困緩和を支援する農村地域の建て直しへと移行し、農村開発イニシアチブに基づいて設定し直す機会を探っている。」

カーエ、ハヤミ、およびショードリーの論文は、貧困緩和政策の実施におけるアジア諸国の経験、および異なるステークホルダーが果たした役割を示している。

アジアのR・カーンは、持続的に貧困を削減するための、唯一で最大の重要な要素は、貧困層の労働力資源を収入者に転換させることであると主張する。この結果は、「賃金雇用の増加、労働生産性・労働需要の増加による実質賃金の上昇、貧困労働者のための自己雇用の機会の拡大、貧困者の自己雇用における生産性の改善を可能にすること、そして自己雇用からの生産物の交換条件の改善」により得られるのである。従って貧困層の解消、そして特に農村貧困の解消に焦点を合わせた開発戦略は、次の要素の組み合わせを含まなければならない。それは、労働集約型の急成長、生産性の高い起業による自己雇用の促進、保健医療、職業訓練、教育による労働力の生産性の改善、貧困層によって販売される製品の販売条件の改善、および、労働力の不足した世帯のための譲渡所得の提供などである。

韓国と台湾は、開発戦略が成功した東アジアにおける最新の例で、農村貧困の重要な削減を比較的短期間で行った。開発の初期過程における平等主義的農地改革は、次のことによって補完された。それは、改良された技術、融資へのアクセス、改善されたインフラ基盤、および農村地域に急成長をもたらすために改善された農産物取引条件などである。同時に、労働集約型製造の急速な成功は、移住労働者が都市部で吸収し、労働力の自然成長を促した。国家の介入は、急速で、雇用に親和的な経済成長に基づく総合的開発戦略を策定するうえで主要な役割を果たした。「これらは、価値ある産業を直接促進するシステム、インフラ基盤開発への公共投資、高貯蓄率と社会的に有益な産業への投資を誘導する奨励制度の創設、
および、健全なマクロ経済政策などによってもたらされた。」同時に、「教育における多額の公共投資の結果は、すぐに、全体的な識字率と労働力の効率に急激な向上をもたらした。一人当たり所得の上昇率とほぼ同じ率での実質賃金の上昇に伴われた雇用の急速な増加は、所得再分配における平等性の促進と、農村地域と都市部の両方における貧困の発生の大幅な削減に役立った。」

韓国と台湾の経験が示すように、農村の貧困緩和は、都市部や農業セクターの成長を切り離して解決できるものではない。「経済全体の調整の取れ開発は、農村経済の開発と農村貧困の根絶の前提条件である。貧困を根絶する成長で成功しているのは、労働力の農業から非農業活動への急速な移行によって特徴付けられる。従って、全般的な経済の成長を導く開発戦略は、農村貧困を緩和するための戦略に不可欠な要素である。」

韓国と台湾が開発の早い時期において農村貧困を根絶することに成功したのは、農村貧困層の間における生産性資本（最も重要なのは土地）の平等主義的分配の初期条件を作り出すための国家の戦略活動の結果であり、また、投資を基本的な保健医療と教育に向けて、生産性の向上（貧困層の所得の増加）を促すために、政策の実施や機関の設立への戦略的介入を行なったこと、そして、都市の雇用機会や近代的都市活動の更なる発展のための条件を創出した、労働集約開発戦略を促進したことなどが理由であると主張する。

ハヤマイ、1885年から1970年までの間における農村貧困の変化と、農村部門によって提起された様々な問題の解決における日本の役割など、日本経済史の中で農業部門が果たした役割を長期間の視点から考察している。著者のこの長期的視点は、日本がどのようにして「低所得の開発途上国から世界で最も豊かな国のひとつ」へと変化したのか、また農村貧困発生率の高い国であった日本が、どのようにして1960年代までに農業労働者の所得と製造部門で働く労働者の所得の格差をなくし、農業と非農業経渉の一人当たりの所得を同じ水準にすることができたのかを問題にするのに特に役立つ。興味深いことに、日本の一人当たりの実質所得が、西欧に比べ僅かに低い程度となった時、都市部と農村部の所得水準の差が縮小している。

ハヤマイ、日本における農村開発の三つの時期を特徴している。それは、1885年から1970年までの「食糧問題」により支配された時期、20世紀の初めから1960年代までの「貧困問題」の時期、そして第2番目は1960年代の「農業調整問題」によって支配された時期である。政府の政策は、これらの三つの時期がもたらした特定の問題に対処するために変化した。「国内生産と貿易用の余剰食糧の増加に向けられていた第一期」から、「社会政策が戦後の社会不安と混乱を防ぐために農民の貧困の緩和に向けられた第二期。農業調整の時代の1960年代から、政府の「政策」は、「様々な保護手段によって農業所得を支援する」よう計画された。日本の農村に関するこの短い類型論で興味深いのは、国家の果たした役割である。それは、単に多様なステークホルダーの利益に対応しただけでなく、農業部門と工業部門の発展の
バランスを保つことの重要性に対する戦略的な目をもっていたことである。その意味で、日本における農業開発と農村貧困緩和はそれぞれ単独で達成されたことではない。むしろ、それは、より大きな開発戦略の一部として達成され、そこで国が市場メカニズムの構築とその社会福祉に対する影響に主要な役割を果たした。

ショードリーは、「南アジア（バングラデシュ、ブータン、インド、モルッブ、ネパール、バキスタン、およびスリランカで構成）が世界で最も貧しく、最も非識字率の高い、そして、最も栄養状態の悪い地域として出現した。世界の貧困層の40パーセント以上が南アジアに住んでいる」という主要を支える統計的証拠を提供している。農村地域からの移住が主な要因である急速な都市化は、都市部の貧困の発生を増加させている。しかし、この地域の貧困はまだ大部分が農村部の現象として存在している。南アジア諸国の政府は農村開発プロジェクトを通じ、「飢えとの戦い、食糧不安、失業、非識字、病気、および栄養失調」などの問題に対し取り組んできたが、バングラデシュの経験を注意深く検討すると、農村開発を促進する政策は、政府が農村貧困者のニーズに対応した、より具体的なプログラムを取り入れ始めた1990年以前は、より裕福な人々に偏って向けられていたことが分かった。

著者は、農村の貧困に対する不十分な政府の対応と、脆弱な地方機関、それがさらに不正問題をもって複雑化したことが、基本的サービスを貧困層に提供する強力なNGOセクターを生み出すことになったと主張する。基本的サービスには、保健医療、栄養、教育、識字、雇用創出や職業訓練プログラム、所得創出、金融と貯蓄、商業化、その他が含まれる。農村貧困者のための金融へのアクセスを広げるNGOのプログラムが成功したおかげで、バングラデシュは国際的に認識されるようになった。グラミーン銀行はこの分野で、おそらく最大かつ最も良く知られたイニシアチブである。本章は、異なるモダリティの下で、バングラデシュ農村向上委員会（BRAC）によって実施されたプログラムの詳細な記述を提供している。BRACは、現在バングラデシュで最大のNGOで、バングラデシュの国内総生産で大いに貢献している。BRACは、貧困層に力を与えて貧困を根絶する方法で、特に農村地域の貧困層に利益を与えることを目指している。雇用を所得創出プロジェクトに重点を置きながら、「医療、栄養と衛生、教育と識字力、エンパワーメントと所得創出、貯蓄と貯蓄、社会開発、製品の加工処理とマーケティング、企業および人の資源開発などの分野にわたる委員会の多部門プログラムは、バングラデシュ各地に広げられている。」

ショードリーは、制度上での脆弱な構造を持つ国々においては、貧困緩和プログラムと貧困層支持政策を実施するうえで、NGOと政府の有効なパートナーシップを構築する重要性を強調する。ショードリーは、貧困層は、影響力ある立場へのアクセスを全く持たず、また、公式の意思決定メカニズムへの影響力を全く持た
ないため、貧困緩和のためのプログラムはすべてその主目標を、貧困者自身のエンパワーメントに置くべきだと主張する。

II 貧困緩和プログラムと農村開発：農業経済の多様化

本セクションに収録した論文は、農村の雇用源と所得源の多様性と、それが農村貧困緩和とどのように関連しているかについての検討を行なっている。また、それらの論文は、農村貧困緩和への明確なインパクトを持ついくつかのプログラムの中から、農村経済の多様化をさらに進めるプログラムを選び、その過程を紹介している。それらは、農村産出の強化、農村工業プロジェクト、農村の農業雇用、および業務委託の取り決めなどである。

オクタビオ・ダミアーノは、ブラジルにおける、類似した特徴を持つ3つの地域の比較研究を紹介している。それらの特徴は、地形と自然資源財産、マクロ経済条件と地域政策、および灌漑設備のためのインフラ基盤に対する連邦政府の投資利益である。しかし、その3つの地域のうち、唯一ベトロリア・ジャゼイロ地域だけが、『農村資本の増加、農村労動者の技能の向上、および作業条件の向上』で表される重要なインパクトを伴いながら、高品質の輸出向け生産の開発において成功している。

全ての関連する要素を詳細に分析したうえで、著者は、ベトロリア・ジャゼイロの成功例を「自由市場」メカニズムの運用、成果ある地域イニシアチブ、インフラ基盤への政府の投資、あるいは、地域における力強い「革新的リーダーシップ」の結果として説明する。他の研究が以前に提案した経済的な主張を拒む。その代わりに彼は、ブラジルの成果は、連邦政府機関が「4つの主要分野において革新的な方法」を利用して、国が果たし重要な役割の結果であると言明する。それらは、「（1）大規模灌漑投資の管理。それには受益者の選択、灌漑補助金の管理、および補助金の生産者に対し成果を上げるよう働きかけることが含まれる。（2）輸出に関わる集団行為の問題を解決するための生産者協会との関係。（3）灌漑プロジェクトに参加する小規模農家への高価値作物と新技術の導入。そして（4）生産者と農村労働者との間の賃金交渉」である。

ブラジルのある地域のケースにおいて、ダミアーノが示した証拠は、グローバル化が農村雇用に及ぼす影響と非伝統的農村活動の拡大が、農村の貧困層に重要なブラックの影響を与えていることを示唆している。「永久雇用の熟練労働者を多く必要とする、労働集約型の高価値作物の生産は、組合の力と彼らの賃金や労働条件の改善を交渉する能力を高める可能性がある。さらに、ベトロリア・ジャゼイロのケースは、経済成長の局地的なプロセスの労働者に影響する影響に、政府が意外な方法で、大きな影響を及ぼす可能性があることを示している。未開地に外部の起業家の引き付けて定着させることは、経済成長の促進の目標に結びつくだけでなく、対立の少ない社会構造のみならず新しい価値と制度をもたらす可能性がある。最後に、消費者の観点は、労働基準と技術に関する企業の決定に大きな
な影響力を持つ可能性がある。」著者は、政府と NGO が消費者や買い手（スーパーマーケットなど）を、購入する生産物の労働に関連する影響について教育することができると結論づけている。「労働者に優しい」生産物を消費者が選択することによる影響は、法規の持つ力より大きいかもしれない。

リバルド・オチョアは、「コロンビアのコーナバレーのダグア市の伝統的生産者たちを唐辛子ベーストの輸出業者へ転身させ成功させ、農業生産者とその他の関係者とのパートナーシップの事例」を紹介している。

このケーススタディは、NGOが様々な農村の関係者たちの間の協創的な関係を築き上げることで、貧困緩和プロジェクトの推進に果たせる役割を示している。「ASOPROCATは、管理能力と交渉力が低いゆえに信頼が得られずに悩む地域、密着型の組織であった。」農村生産者の生活水準を改善するために、市立農業技術移転支援部、国有石油会社、私企業のヒューゴ・レストレボ＆カンパニー、非政府組織のカルバジャル財団の関係者とともに協力し、国際市場でさらに需要のあった唐辛子ベースト製品輸出の機会が生み出された。

このプロジェクトは、悪化する生活条件と農村地域の脆弱な機関を背景に発生された、負債の持続と政府介入の減少は、貧しい小規模農家に財政的・非財政的サービスを提供していた機関を消滅させるに至った。」責任は、十分な資源もない地方レベルへ移転されていった。また、コロンビアの農産物の多くが経済収益の低さ、高金利、不安定性、農村地域の暴力、低競争力、明確に安定した農業政策の欠如といったすべてのことが、農村投資の減少と失業の増加を引き起こす原因となった。

貧しい農家を成功した輸出業者へと変えるプロジェクトは、カルバジャル財団によって開始された。農業（社会資本）、土地と基本的インフラ基盤へのアクセス（物理的資本）、および意欲（人間的資本）を最小限しかもたらない農村貧困者に重点が置かれた。「カルバジャル財団の役割は、限られた資源で最大の結果を得るために、異なる関係の効果を引き出し、お互いの資源を補完しあうプロジェクトに参加させることであった。」

このプロジェクトの実施で得られた教訓のいくつかは、次のように要約することができる。「参加者の間でコミュニケーションを良く保つことの重要性、特に資源が十分でない場合に異なる組織の関係者間が協力して活動し、お互いの間で最小限の合意を成立することの重要性、安定した輸出市場を対象とする利点、個人や集団の関心を引き出すための適切なインセンティブの設定、プロジェクトで管理できない外部変数の影響から生産者に守るメカニズムの創造の重要性、（例えば、為替レートの変動の影響を防ぐためにドル建て契約を確保する）そして、会員利益と関連性を示しながら地域密着型の組織を強化することの重要性である。」
本章が書かれた時点では、プロジェクトの正当なインパクト評価はなされていなかったが、いくつかの目に見える効果があった。それらは、コミュニティ組織として、また地域の他のコミュニティのための評価基準としてASOPROCATが強化されること、プログラム参加者に所得水準の重要な増加、およびコミュニティ、地方自治体、および民間企業の強力な協力関係、さらに加えて、海外顧客が輸出製品の品質に満足したという事実などである。

「成功の最も重要な要素の一つは、計画段階からのプロジェクトが市場志向であったことである。唐辛子ペッパーを扱う決定は、商業化が保証され、価格は既に確立されている（それでもドル建て）という事実に基づいて行われた。そして、そのことは、プロジェクトの挑戦的な計算を比較的単純化した。」

著者の意見では、「コロンビアの農村地域で、最も急を要する問題は、小規模農家と彼らのコミュニティのための機会の不足である。特に若者が計画を立てれるための選択肢が少なく、武装グループ、違法作物生産、あるいは麻薬取引に加わってしまうことが多い。同じ理由から、例えば法的かつ平和的な方法で所得を得る機会、人間として成長する機会、地元あるいは他のコミュニティに役立つモデルとして奉仕できる機会、などが与えられれば、彼らは自らの生活条件を改善しようと全力を尽くすことになる」という。

オチョアは、「開発機関は柔軟性を持ち、コミュニティ内部のダイナミックスに敏感で、発展しながら様々な状況に対応できなければならない。プロジェクトの持続性は、生産・商業化チェーンに属する関係者間の相互作用のダイナミックスにかかっている。そしてそこでは、各関係者が特定の条件と時期に合わせて重要な役割を果たしている。持続性の問題との取り組みには長期的視点を考慮するべきである。結局、これらのタイプのプロジェクトは、全てのステークホルダーのビジョンのやり方に該当する行動や考え方に変化を与えている。開発プロジェクトの持続性は常に外部要素によって脅かされる可能性がある。地域密着型の組織と複数のステークホルダーを抱える提携関係を強化することが、長期的利益を保証する唯一の方法である」と主張する。

次の章は、メキシコの農村地域に住む女性たちの伝統的所得源の多様性を支援する開発プログラムから得た経験を紹介している。メリア・コスタは、都市化の進展にもかかわらず、農村地域の新しい人々の絶対数は増加しており、都市への移住が継続的に行われるために、農村コミュニティの平均サイズは縮小していると主張する。農村地域では、先住民の確固たる存在があり、また、最も低い人間開発指数を示す極度の貧困の発生率が高く、それは特に女性の間に多く見られる。農村貧困者がより広い範囲で拡散すると、貧困緩和のためのプログラムの計画は一層複雑になる。

「農村開発における女性」プログラムは、メキシコ政府の、「女性と青少年の役割に特に配慮した生産チェーンの確立を促し、投入コストの低減と最終製品の付
加価値を高めることを目的とした生産者間の協力を促進する」ための、より大きな戦略の一部であった。プロジェクトの主な目標は、職業訓練と技術支援に重点を置きながら、地元の資源と適切な技術を利用して、競争力があり持続的で生産性の高い代替手段で、農村経済の多様化を促進することであった。このプログラムはメキシコで見られた「農業の女性化」傾向に対応するために開発され、食糧安全保障より多くの世帯所得を確実にする女の能力を高めることを目指している。

メリア・コスタは、異なった形の連携関係の促進を通し、プログラムの最も重要な貢献は、地方と地域レベルにおける女性の安定したネットワークを促進したことであると主張する。つまり、「女性の活動の競争力と収益性を高める一つの方法として、女性グループ組織を支援して非農業・小規模企業の発展を助けることである。プログラムの特定の目標は次のとおりである。「（1）段階的に政府補助金を廃止しながら女性グループが自らの投資機会を見極める能力を高める。（2）食糧安全保障を促進するために家庭菜園を奨励する。（3）昔からある普及のサービスや国の研修プログラムなどを利用しながら技術の移転、導入、および交流を通じて技術的な改善を支援する。（4）伝統、文化、およびコミュニティ組織を保護するため、天然資源の合理的な利用を奨励する。（5）コミュニティ、地域、州、国レベルにおける女性のより広範な参加を促進する。（6）女性の開発可能性を最大化するための教育と訓練を取り入れる。（7）結果と計画した目標を対応して評価するための方法論を取り入れる。そして、（8）他の地域と同様のプロジェクトに女性のより広い参加を促すために、成功例を確認し、まとめ、その情報を広める。」

メリア・コスタは、メキシコのある地域（プエブラ）で実施されたこのプログラムについて述べている。そこではメキシコの最も貧しい農村地域でよく見られる、典型的な問題がプログラムの実施を困難にした。それは、「住民の大部分が先住民で非識字者である。非常に高い割合でアルコール依存と家庭内暴力の問題がある。プロジェクト中に参加している女性の多くがシンブルマザー、夫が、雇用先を求め、他の州や市に移住している。そして、貧困を削減するための持続可能な生産性の高い活動を生み出す、かなり温情主義的な政府の支援を受けている伝統がある。」

測定可能な結果を判断するために、正式な評価が今後必要となると思われるが、「女性グループ組織、所属する組織や、家庭や、コミュニティのなかの意思決定者としての役割において、女性が力をつけるのを支援した。ミクロ地域ネットワークの構築や地域の職業訓練ツアーやの参加は、様々なグループ間の連帯の強化、地域レベルでの女性組織の力を強化するのに役だった。恒常的な職業訓練活動は、女性の生産力や管理能力を改善した。所得の増加と自家製の食品の供給は、家の食生活を改善し、新しい野菜、動物性脂肪、および穀物を組み入れ、消費の多様化をするのに役立った。女性グループの生産の多様化は、従来か
らの作物ミックスの幅を広げようと、新しい技術や土壌を取り入れている他の生産者に実証的な影響を与えた。グループの大部分は、プロセスの持続性を支え、現在も混み合うことを通じての貯蔵と再投資資金を有している。」

さらに、このプログラムの実施は、農村の女性を政策やプログラムの計画に組み入れることの重要性、農村労働者のその他の政府機関に女性の問題を認識させる方法を統計的調査に利用することの重要性について、政策立案者や農村開発を担当する機関の認識を高めた。

チャンズ‧リー、ドンフィル・リー、およびサンボーンの論文は、アジア諸国の農村経済多様化への差分支援方法と、貧困緩和へのインパクトを例証している。チャンズ‧リーは、農村貧困の発生の急激な削減や、バランスのとれた経済成長を含む台湾の経験を例に、農村セクターの転換における政府の重要な役割を強調している。早期から農業セクターは、台湾における開発の総合戦略の本質的な構成要素として考えられていた。「台湾の農業は急速な経済成長の基盤であり、農業と工業の強いセクター間のリンクが、高度経済成長の重要な構成要素として注目されてきた。台湾の開発戦略は、“農業の援助で産業界を育成し、工業の発展を支援して農業を発展させること”であった。」

「台湾の戦後の経済発展は、三つの段階に分けることができる。第一段階において、農地改革と農民組織の創設は、農業生産のための農業基盤を強化する手段であった。総合的農地改革プログラムは、農民に、生産を増やし多様化するための強力なインセンティブを与えた。」第二段階において、「灌溉施設の建設と労働集約技術の導入は、生産性を向上し、農村の人々の購買力を増加させた。さらに、食粮力になった農民組織が、農村開発への農民の参加を促し、彼らの団体交流を強めた。」第三段階では、総合改済とインフラ基盤への一層の投資によって、農村セクターの多様化が助けられ、コメ生産から、主により多種類の作物ミックスへと移行し、更に非農業活動へと移行した。1995年までに、農村地域の世帯の総所得の3分の2は農業所得となり、農村の平均所得は都市部の平均より低かったが、絶対価値は絶対的に増加した。「さらに、農業からの純収入では、農民の福祉の程度は測れない。家計は、社会サービス、アメニティ、保健医療、教育、交通、通信、住宅、および電力などの可有性を部分的にしか反映していない。もう一つ重要な農民の福祉の基盤は、農村のコミュニティの比較的高度な組織化である。それらは、農民たちが、彼らの信頼を発言する機会を与え、公共サービスへのアクセスを広げるものである。これらの問題が一旦考慮されてから、ここ30年間、台湾の農村の人々は注目すべき生活の改善を享受している。」
チェンズァー・リウは、今日、台湾の農村が直面している、いくつかの問題の概略を示しながら、農村セクターの急速な転換を導いた開発の戦略についての詳細な評価の結論を出している。それは、環境保護の改善と、歴史的価値の保存を行なうの他に、農村家庭の居住スペースを広げる物理的スペースの再編成である。著者は、ここでも、農村生活をさらに多様化し、歴史的価値を観光資源の強化を行うためには、「基本公共設備開発、改革プロジェクト、基本的インフラ基盤と保養施設の提供、運動場、公園、および緑地の建設、そして、交通と環境保護の質の改良」などの計画が必要であると主張する。

韓国は、農業改革と入会に計画された農村開発政策の結果として、農村セクターの多様化と急速な貧困緩和が得られたアジアにおけるもう一つの国である。ドン・フィル・リーは、農村の貧困を削減し、バランスの取れた国家開発を促進するための戦略として、農村地域の工業化を推進した韓国の経験を検討している。著者は、最も評判の良い農村工業化プログラムの一つ、農村工業地プログラム（RIP）の経験を通じて、「インフラ基盤、交通、電気、そして市場情報システムを含むテレコミュニケーションを必要とする、農村工業の政策的含意」を例証している。

韓国では1960年代から、農村地域における中小規模産業の賃金所得の急速な増加、農産物の加工、および建設とサービスセクターの臨時労働から得られる賃金などによって、農村の貧困を大幅に削減されるとともに、農村地域の総世帯所得に対する農業所得の割合が増加した。これらの変化にもかかわらず、都市部の急速に増加した賃金と停滞気味の農産物価格によって、都市部と農村地域の世帯所得の格差が拡大した。

韓国政府が農村経済の多様化を支援するために利用した重要な手段の一つは、農村工業地プログラム（RIP）を通じて農村地域の工業化を進めることであった。これは、新たな中小規模企業を新設し、会社を都市部から農村部へと移動させるための魅力的なインセンティブを提供した。このプログラムは、特に非熟練労働者のための、農業雇用創出に重要なインパクトを与え、農村地域の関連産業、サービス、および商業の力強い発展を支えた。

著者は、韓国経済の急速な変化を反映するための、重要な運用上の変更を取り入れなければ、このプログラムが農村地域の開発に与えた、バランスのインパクトを将来再現することはできないという見解を持つ。一度は成功したRIPの構築と運用のための「単一」モデルは、各地域の特徴とそれぞれが持つ資源に適応するよう、より柔軟性のある計画に置き換える必要はない。しかし雇用創出と職業訓練は、今後も成功への重大な要素であり続けるであろう。

韓国の農村地域の工業化プログラムによって得られた教訓のひとつは、戦略と総合的な観点を、農村地域の多様化に適用することの重要性である。著者は、農村貧困を削減するために世帯所得を増加し、経済全体でバランスの取れた地域開発
を進めるという目的を達成するためには、少なくとも４つの要素が必要となると主張する。それは（１）PRPの成功を支援するための計画される農村工業化戦略（２）関与するすべての機関との間で調整される総合支援プログラム（３）地域の開発レベルに見合った差別のインセンティブの設定（４）PRPの開発のすべての段階における地方自治体の関与である。

ソームボーン・ハンボンバンディは、アグロ・ビジネス活動の拡大の促進におけるタイの最近の経験を、農村経済の多様化、輸出の増加、農村貧困の削減を行なうためのメカニズムとして説明している。農外活動は、農村世帯の所得において常に重要な役割を果たしてきた。乾季の間、伝統的に農業労働者は、「一時的な農外または非農業雇用に頼ってきた。政府の後援によるいくつかの農村雇用創出プログラムと、中近東諸国における高い労働力需要は、伝統的に、より恒常的な農外の仕事の提供した。農村から都市への人々の移住と国際送金は、農村における農外所得の増加と農村貧困の削減に寄与した。」

「1997年に起きた金融危機は、農村から都市に向かう移住者の流れを逆流させ、120万人近くの人々を農村に押し返した。農村は、移住者を吸収するという強い力の力が必要した。移住者が自らの力で生き抜き、地域を立ち上げるための技能の育成や、バンコックの製造業からの労働者の下請けなど、この逆流した移住者の吸収を助ける新しいプログラムが開発されつつある。」本章で著者は、1990年代後半の経済危機の時期に、農村の貧困を大幅に増大することを防ぐためのメカニズムとして、農村における新たな所得源を増強するために実施された、政府の異なるイニシアチブについて論じている。

農村の貧困は、一見しない主要な関心事であるが、他の東アジア諸国と比べた場合、タイの貧困年率は低く、最近の貧困緩和プログラムは成果をあげている。この成果の多くは、国内および国際市場の生産チェーンや農産物加工処理法を生み出すため、地方レベルの小規模イニシアチブの開発を支援する、政府、市民団体、民間セクター、および、多国間機関による、様々なより大きなイニシアチブの間で達成された調整のレベルの高さに帰すことができる。

III. 貧困緩和プログラムと農村開発：インフォーマル金融市場とマイクロファイナンス

農村経済の発展、そして特に小規模生産者が多数を占めるセクターが受ける主な制限の一部は、公的金融市場へのアクセスの欠如である。このセクションでは、農村貧困者への新しい資金源として、成功している金融プログラムの例について検討を行う。
ベルーでは1990年代に財政改革によってマイクロファイナンスのプログラムが急速に開発された。それによってベルーはこの分野に関して南米で主導的な国のひとつとなった。フィリペ・ボルトカレロは、最も成功したイニシアチブのひとつとなった、カジャス・ミニュシパレス・デ・アオロ・エ・クレディット（CMAC）の例を紹介する。これは、比較的短期間で、農村貧困者の財源供給の拡大を目指した、地方自治体によるプログラムである。

このプログラムの最も興味深い特徴のひとつは、農家への金融の拡大が、迅速な預金の運用において地方レベルでの支援も受けていたことである。2000年に、地元の貯蓄額は総金融供与額の70パーセント近くを占めた。これはおそらく、比較的短期間（運用は1996年から開始）で強化された地域市場のプログラムの最も良い例である。「その運用は、補助金なしで、市場に適応して行なわれており、見事な収益性を生み出すに至っている。その持続性を説明する主な要素は、生産力の向上と、コスト管理対策による運用コストの合理化、質の高いポートフォリオと、妥当なレベルのレバレッジなどである。」

CMACが供与した金融が急速に拡大し、運用が強化されたのは、当時ベルーが享受していた成長とマクロ経済的な安定性の結果であるが、それらは、金融取引において達せられた効率を抑制的にも関連している。技術援助、職業訓練、および制度強化における国際的ドナーと米州開発銀行による長期支援は、成功の重要な要素であった。

CMACが供与した金融の急速な拡大は、また、農村地域に他の金融分野や金融仲介活動がないことを示している。このプログラムは明らかに農村貧困者を対象として計画されたものであり、クライアントのほとんどが微細・小規模企業に分類されるが、平均融資額（633米ドル〜979米ドル）は農村の貧困層の大多数人の手には届かなかった。ボルトカレロは、適切な対応を必要とする重要な課題がまだ残っていると主張する。例えば、ベルーは現在、低インフレ率を維持しているにもかかわらず、金融コストは一般的にかなり高いままである。地理的な分散と高い生産リスクのために、農村地域の微細・小規模企業の収益性は非常に低い。投資プロジェクトの建設及び住宅を含むよう、マイクロ金融の計画期間を延ばし、供給を多様化するために、農村地域の金融市場において、より大規模の金融深化が必要とされる。

著者は、「直接的に対する影響に対処するために役立つと思われる要素は、（1）マクロ経済的安定性を保つ活動しやすい環境をつくる（2）農村の金融市場への政治的介入の回避（3）より優れたインフラ基盤（道路、保管設備、灌溉、技術的アドバイス、その他）による農業収益性の向上とリスク緩和メカニズム（外的ショックに対する保険制度）（4）安定した法律構成の制度と効率的な司法制度（5）現行プログラムの制度改革を行い、より健全なガバナンスの構造を構築し、政治介入のリスクを軽減すること」と結論している。
ポルトガルは、CMACの間で合併を促進する政策は、異なる地域の農村の融資を多様化する彼らの能力を高め、金融リスクを下げ、規模の経済を生み出すことができると主張する。これらの機関が、通常最も裕福な農業地域の外に住む貧しいクライアントにサービスが届くのを可能にするために、金融のデリバリコストを下げる新しいメカニズムを開発するだけでなく、開発農村の住宅や住宅の増改築への投資を融資するための新製品も開発しなければならないことは、経験が示している。

ジェネシス・エンプレサリアルは、マイクロ金融と技術支援によって、グアテマラの貧しいコミュニティの基本的インフラ基盤の強化と、零細企業の発展を支援する民間イニシアチブである。エドガー・ブカロは、グアテマラの零細企業と貧困層のための金融資源を増やすことによって、彼らのニーズに対応しようとする試みから、この組織が得た経験についての詳細な分析を示す。零細企業の大部分は、担保や一般融資枠にアクセスするために必要な資格をもたない。事業を拡大するために借金をする零細企業の多くが、市場金利よりも高い利息を払うことになる。グアテマラでは、一日当たりの利息が最高20パーセントにもなることがある。近年、グアテマラでいくつかの民間開発機関（PDOs）が事業を拡大し、零細企業への金融サービスも行なうようになった。これらの多くが、二国間援助と利益者間の仲介役を果たしている。ジェネシス・エンプレサリアルは、ドナーから供与された財源の管理に加え、民間銀行と協働する唯一の機関である。

ブカロは、グアテマラで事業を営む零細企業の状況を記述する。それらの多くは法的な登録をしておらず、正式な融資枠からの借入金を保証するための担保物権を有さない。PDOは、借り手からの信用評価を受入れる。個人または集団の負債認識は、融資を保証するためにもと受入れられる。ジェネシス・エンプレサリアルの事業が、グアテマラの16軍管区（実質的には国全体）へと急速に広がったのは、農村貧困者に対する金融サービスへの大きな需要が満たされていただけたことを証明する。この組織の成功は、多様なサービスを提供したことによるものである。

農村のコミュニティの特徴は、「高い貧困レベル、高い非農業率、低所得の農業活動と不安定な職業の過剰集中、人口の低密度、インフラ基盤の効率が低いかあるいは全く存在しない」、輸送手段が乏しいあるいは皆無、都市市場への統合の欠如、商業銀行の金融機のための担保不足」などが挙げられる。その結果の金融仲介活動は、取引コストが高い、農村コミュニティの人口の低密度により、個人預金が乏しく、融資要求額が低い、コミュニケーション不足と市場統合欠如によりリスク分散が困難、そして、農村経済の生産サイクルにより高リスクとなる。ジェネシス・エンプレサリアルは、潜在的な農村のクライアントのニーズに対応するために、融資ファシリティと制度的手続きを取り入れ、これらの問題に対応しようとした。」
「ジェネシス・エンプレサリアルが強化されたことについて説明する重要な要素は、資金額を多様化し、民間銀行（国内と国外）、国際機関、および国際機関などから資金を得たことである。ジェネシスの活動の重要な原則は、各金融プログラムと各事業部位の持続性を維持するという原則である。地理的分散は貧しい農村地域の大きな特性のひとつであるが、ジェネシスは、各コミュニティでのポートフォリオを多様化することにより、活動の最低限の「集中化」を行うこととした。目的は、各融资ファシリティの生産性の向上、取引コストの削減、および収益率の増加である。」補助金を通じたために市場経済を適応する活動は、活動持続性を証明する成功である。

本章は、金融仲介活動の発展と持続性に対して、統合的なマクロ経済の状態が重要であることを指摘し、締めくくる。国が、経済的、社会的、あるいは政治的に不安定であるならば、最も良く管理されたプロジェクトさえ危険にさらされる恐れがある。

スマントロ・マルトウィジョは、一九九〇年及ぶインドネシアのマイクロファイナンスの発展の歴史の解説を、一八九〇年の農村融資機関の設立から始めて、農村地域における村落ベースの正規・非正規の幅広いマイクロファイナンス機関を含みながら行なう。これらのマイクロファイナンス機関が、比較的少ない援助で活動を持続することに成功しているにもかかわらず、政府の政策は、貧困緩和の手段として、補助金による融資プログラムを利用し続けてきた。

スマントロは、BRIユニットシステムの例の丁寧な要約を提供している。BRI（現地語のインドネシア人民銀行の頭文字）は、インドネシアにおける最大のマイクロファイナンス機関のひとつである。一般的なコメ集中型プログラムの金融部分を広げるパイプ役として、一九七三年に創立され、さらに、商業銀行のシステムへと転換したが、その成功によって農村貧困者が貯蓄せず、融資を理解できず、ローンの返済ができないという現象が起こることが増加した。

マイクロファイナンスのサービスは、長い間、政府の貧困緩和戦略の重要な部分を占めてきた。その意味でBRIユニットシステムはユニットとは言えないと、この例が興味深いのは、全国で西東南北を覆うネットワークの広大なネットワークである。二〇〇二年までにBRIシステムは全国領域で約三七〇〇の店舗を持つに至った。

「ユニットシステムの活動の中核は、農村貧困者に小額ローンを提供し、貯金を運用されることである。その他の製品やサービスは、中核となる活動を支援した場合のみ追加で提供される。」新製品開発のための基本的な条件は、実施調査によって特定された顧客ニーズ、補助金に頼らない活動の持続性を確保する収益性、広く販売し得る製品の数を限定して、管理とアカウンタビリティの簡単化を図り、活動を簡単すること、などが含まれる。
BRI ユニットシステムのインパクトを評価するために、3 年間で平均 250 モルを借り入れた人々を対象に 1990 年に行われた最近の調査では、このプログラムの成果の要因がいくつか特定された。実施農村の借り手の 73 パーセントが、BRI から融資を受けた 3 年後に農村貧困ラインを超えている。世帯所得は年間 20 パーセント増加した。（プログラムに参加しない世帯よりも高い成長。）3 年の参加の後、証券企業収益は、実質 93.4 パーセント伸び、総雇用は年間 18.2 パーセント増加し、農業労働者の使用は、13.7 パーセント増加した。参加世帯の賃貸借額も増加した。「土地を持たない世帯、証券企業収益を小さな耕作地の購入費に当てた。生産機械を所有する借り手は、14 パーセントから 26 パーセントへと増加した。そして、一部農業として使用される車両を所有する借り手は、28 パーセントから 44 パーセントに増加した。」また、スマントは、参加農民の生活水準が向上しつつあることを示す証拠を提供する。さらに、「BRI が、農村貧困者を対象とした収益性の高い、補助金を受けない金融サービスを提供して成功したことは、銀行に対する政府の規制に大きく影響した。1990 年の銀行制度の改革において、中央銀行の助成による流動性融資の提供が削減され、その対象は協同組合の発展、食糧の自給自足の維持、およびインドネシアの東部地域の開発を支援するものに限られた。」

インドネシアのマイクロファイナンスの発展に関するこの特定の事例は、このようなタイプのプロジェクトが成功するための要因を明らかにする。賢明な融資政策は、各ユニットの存続を維持するために重要で、特に小規模取引の高いコストリスケールをカバーするための高いプラスの利子率が必要である。すべてのステークホルダーのための効果的なインセンティブが必要である。例えば、従業員向けの成果主義によるインセンティブや、借り手にローン返済期目を遵守させるためのインセンティブである。意思決定の分散によって、ユニットマネージャーに、明確なアカウント生成システムの下で、各自的ユニット活動への権限を与える。単に対象とする融資を広げる機会として機能するのではなく、貯蓄と融資枠などを含む金融仲介サービスを提供しなければならない。BRI の経験では、農村貧困者が多くにとって、貯蓄枠の提供の方が、信用供与よりも重要であった。給料その他のインセンティブとは別に、集中訓練を通じて効果ある投資を人材資源に対して行わなければならない。担保物権は柔軟に受入れなければならない。そして、社会メカニズムはローンを保証するために利用されなければならない。

インドネシアのマイクロファイナンスの長い歴史とは逆に、ダオ・ヴァン・ハンは、ベトナムで最近導入された。貧困緩和のためのマイクロファイナンスの開発の概念について考察を行う。1986 年後半に実施された経済改革を受けて、ベトナムの経済は非常にダイナミックとなり、ベトナムは移行経済国のかたで最も成功した国のひとつと考えられている。国民の大部分の経済成長率は生活水準
は目覚しく向上した。しかしながら、ベトナムは依然として世界で最貧国のひとつに位置付けられている。

貧困の課題において、ベトナム農業・農村開発銀行（VBARD）、ベトナム貧困銀行（VBP）が、人民信用基金（PCF）のようや、正規の金融サービス提供者が、貧困と飢餓を放置する低所得世帯のための金融資源の提供に重要をケントしてきた。貧困者への低金利利息と国家計画ののもとで政府によって提供された資本もまた、農村のインフラ基盤を改善するのに必要な補助金となった。

1980年代の結果に比べ、マイクロファイナンス分野で得られた結果には目を見張るものがよりず。ダオ・ヴァン・ハンは、貧困者への融資の提供における VBP の経験を分析する。「いくつかの大きな問題が残っている。正規のマイクロファイナンス機関の全体的にみて十分にカバーしておらず、低所得世帯は依然として親類、友人、および、通常の金融機関に融資を求めることが難しいなど、若者からのネットワークを通じた非正規の融資に頼っている。」問題の一部は、低金利で融資することで、貧困者向けの小額融資を助けるというものである。政府の見解では、助成や小額ローンの管理・回収に関わる取引コストに加え、低金利と入手不足は、貧困緩和のための小額融資サービスが持つ潜在能力を制限してきた。農村の貧困者の融資に対する大きな変化に、システムを対応させるために、ベトナムにおけるマイクロファイナンスのやり方に幅の広い改革が実施されなければならない。

ダオ・ヴァン・ハンによると、ベトナムの農村貧困者向けのマイクロファイナンス・サービスの拡大は、今後、政府がどのように4つの重要な問題を解決できるかにかかっているという。それは（1）国際的なベストプラクティスに従った、小額融資を提供する公の政策の活性を許可するよう現行の金融関連法規を改革すること、（2）貯蓄の公開と商業的に持続可能な金融によって VBP の制度上の存続を確保すること、および地域の貯蓄能力に限られている一方で、融資と金融の支援を最も必要とする貧困地域でどう活動するかという問題に対する革新的な解決策を採ること、（3）貧困者への金融・貯蓄サービスの提供において、市町村組織を助成して活動するための効果的な長期戦略を開発すること、そして、（4）VBP で働くスタッフのやる気を高め、農村の貧困世帯の支援への係わり合いを強めることである。

著者は、ベトナムでマイクロファイナンスのサービスが運用された数年間から学び得た教訓に基づいた、一連の提案で締めくくっている。貧困者への金融サービスは、確かに効率やアウトリーチの面において改善の余地はあるが、著者は、近年、ベトナムの貧困の発生が増加を続ける速度で進んだことは、政府の農村開発と貧困緩和のための総合策を、都会と農村の不平等の減少がどのように改善を進められているかを表していると主張する。農村地域での雇用機会を拡大し、貧しい
コミュニティにおけるインフラ基盤を改善し、少数民族の生活水準を向上するための総合的戦略のもとで一つの要素は、農村金融へのアクセスの増加である。

III. 地域開発機関と貧困緩和：戦略的の方向性と新しいチャレンジ

本セクションの3つの章では、農村開発と農村貧困緩和の問題に関する地域開発機関の戦略的視点と、金融と援助のポートフォリオにおけるそれらの問題の重要性が示されている。

ルーベン・エチェベリアは、米州開発銀行（IDB）の「中南米地域諸国で高まる需要を満たすため」の戦略的視点を説明する。「この議題は、国際的な作業で、社会的要因、貧困と不平等、環境、農業、農産業と農業食品、製造業及び中小企業の開発、および社会インフラ基盤などが考慮され、農村経済に対する幅広い多部門的視点に基づいてまとめられる。本章は、銀行活動の様々な領域と中南米・カリブ地域で活動する技術や金融関連の、他国間・国間間機構の補完性に焦点をあて、農村地域の持続的開発における重要な問題についてのコンセンサスを求める。また農村経済を促進する必要性が地域的および総合的な観点から強調される。」

「本章は、中南米地域の深刻な農村の貧困状態を強調し、農業および農産業セクターが成長をもたらし、農村と都市部の貧困を削減し、天然資源の管理を向上する可能性を力説する。また本章は、得られた教訓、および、農村貧困を削減するための政策や手段を促進する新しいアプローチの必要性を検討する。対象とされる地域分野は、セクター改革プログラムの強化、公共セクターと技術サービス、衛生および情報の近代化、農業の農村活動の促進、土地と水の管理、農村金融市場の開発、天然資源の持続的管理、インフラ基盤と質の高い農村生活、および人間の資源と職業訓練である。最後に、中南米諸国に提供されるサービスの効果と効率性の改善に向けた省庁間協力の重要性が強調される。」

農村貧困緩和の異なる方法から、IDBが中南米の農村開発支援政策に関して得た教訓のいくつかは次の通りである。「（1）中南米の農村貧困の規模、複雑さ、および強さの取り組みに、依然として幅広い戦略が導入されず、十分かつ一貫した戦略的な資源配分を得た対応が行なわれない。一般的に農村の貧困者は経済力をもたず、政治や資金提供機関が好んで助成を行なう対象ではない。その結果、これらのプログラムを遂行するための人員が確保されず、介入が行なわれる経済的、社会的、文化的背中の分析はほとんど行なわれない。 （2）経済成長は必須だが、必ずしも貧困緩和の十分な条件は必要とされない。従って、特に農村地域で広く存在する大きな不平等と低い教育レベルの条件のもとで、目標を絞った介入が必要である。（3）経済成長と農村および都市部の貧困緩和に、食品や農業セクターの開発が必要である。（4）農村地域に対する強い否定的な偏見のある経済政策を実施した国は、部分的な補助金が、相対価格によってもたらされた偏見を是正するために使用された場合さえ、経済の近代化に成功していない。（5）農村人口のより高い経済効率性と福祉レベルを確実にするために、生産的投資、イ
インフラ基盤整備、技術導入が貿易自由化に伴わなければならな。6）農業面での可能性を持つ小規模農生産者、生産性の高い農業へのアクセスを助け、収益性の高い農家生産を可能にする一方で、農村の非農業活動を促進するような経済政策を伴わない農村開発プログラムは相対的に無効である。7）農村開発プロジェクトにおける受益者の参加の低さは、需要への即応性の乏さ、コミュニティの吸収速度への不適切な介入、持続性に欠けるイニシアチブといった構成要素をもたらした。 それら一連の踏み板から、IDB は、特に、低成長率、持続的な貧困率の高さ、悪化する所得分配、農業に係る深さのある物の収益性の減少といった面で不安定な結果を伴う 15 年間における安定化と構造的調整の政策が生み出した情けない結果を踏まえながら、農村政策の計画を改善する新しい地域的なコンセンサスを目指して努力する必要性を強調する。従って、より自由で市場経済、変化する消費者の嗜好、および急速な技術変化といった背景のもとで、開発のため優先事項を新たに定義し直す必要がある。この関係において、セクター別の政策、質の良い情報に基づく経済または意思決定プロセスを保証し、適切なリスク評価を含む、より大きな意思決定の自主性を確保しながら、新製品ラインへのアクセスの拡大を各省が決定できる状態を実現するものでなければならない。

IDB の役割は、各国の政府が農村経済への新しい地域的アプローチを必要とする新しい枠組みのなかで、それぞれの開発の優先事項を確認することを支援することである。その新しいアプローチは、経済成長に貢献し、自然資源を維持し、農村と都市の貧困をともに削減するものである。IDB と他の開発機関の支援が重大なインパクトを与える可能性のある投資分野は次のように箇別に示される。

（1）マクロ経済政策の実際性を実現する農村地域改革プログラムの強化。
（2）農村開発の新しい枠組みを支えるための組織構成の見直しに特に配慮した農村地域における国家の役割の近代化、
（3）農村の農外生産活動の促進、
（4）小規模生産者の地域内、または、伝統的な土地改革プロジェクトの強化への支援を含む、土地利用権の拡大、および、非生産的な土地所有を抑制する課税法や、地方税管理を地方自治体へ分散化し可能な交渉、
（5）農村金融市場の開発で、特に、新しい市場条件に応じて転換する小規模農業のためのものや、非農業の農村活動を奨励するもの、
（6）天然資源の持続的管理、
（7）インフラ基盤と農村生活の質の改善で、社会から取り残される地域を国の開発プロセスに組み入れ、政府活動を分散し、取引コストを削減し、公共投資と個人的生産活動の効率によって農村の町やコミュニティの強化を可能にするもの、
（8）人間資源と雇用機会を改善するための職業訓練で、農村人口の基本的組織能力を強化し、農村開発への彼らの全面的参加を促進するもの、である。

地域戦略は、地域の経済と社会開発に一層のインパクトを与える中期、長期の多部門のアプローチを用い、戦略的投資のための資源の運用、政策対話による体系的思考、アイデアやプラクティスの普及、経済改革、組織的
強化、および貧困地域における投資プロジェクトのプログラムの開発などを進めることで、農村開発を達成しようとする国家の取り組みの支援で基本的な役割を果たすことができると結論づけている。

次によると、ディーター・ブッチャーは、「貧困緩和を銀行の最重要目標」とするアジア開発銀行（ADB）の課題と戦略について概説している。「ADBの貧困緩和と新しい取り組みは、3つの主な柱に基づくものである。それらは、
（1）貧困解消を目指した持続的な経済成長の促進、（2）社会開発、（3）優良なガバナンスの強化である。このアプローチは ADB がプロジェクト融資機関から、より幅広い開発機関となり、開発途上の会員諸国の政策改革を促進し、物理的および組織的な能力の開発を支援し、貧困緩和を目指すプロジェクトやプログラムへの融資を行なうことを必要としている。」

ADB の貧困緩和へのアプローチは焦点をセクターでなく、人間そのものに合わせているが、ADB が融資するプログラムやプロジェクトは農業と農村開発、農村地域の社会セクター開発、農村のインフラ基盤と農村金融などに大きく偏っている。このアプローチはアジア太平洋地域では貧困者の大部分が農村地帶に住んでいるという事実に基づいて正当化されている。

一般的に成果が得られない農業と農村開発プロジェクトの経験から、ADB は、新しいアプローチに向けて動き出した。それは、次の課題のいくつかを含んでいる。（1）「各国別の経済成長、貧困緩和、および持続可能性のある環境開発との関係を含む」ように、焦点を広げる。経済成長は重要ではあるが、貧困を増減するためには十分でないという認識によって取られるアプローチ。（2）農村経済におけるよりマクロ経済政策を避けるために、よりバランスの取れた焦点を都市部と農村地域に当てる。（3）農村のインフラ基盤と農村金融を通じて、食糧自給自足のコンセプトを確保するコンセプトへの移行。（4）農業に対する過剰な集中からの、物理的および社会的インフラ基盤整備を含む農村経済の多様化の推進に移行。（5）活動しやすい環境を構築を目指し、農村地域で展開する活動の本質に関する基本的な決定を、地域の家園、農業、またコミュニティ（地域密着型の組織や NGO を含む）に委ねる。（6）成果がある農村開発を確実にするため、すべてのステークホルダーの関与と意思的な参加を促すに効果的なガバナンスとキャピタルビルディング。（7）現場で決定された優先事項に従った適応研究と官民パートナーシップの促進。（8）補助金融のにおける新しいアプローチに変えて、農村市場の金融資本の発展を支え、金融資本へのアクセスを広げる。（9）正規の水市場、利用者の権利・使用料、および、農家の関与する流域・灌漑管理の導入を要する、希少資源としての水へのアクセス。（10）統合された不動産法规の強化と、効果ある土地管理機関の設立によって土地へのアクセスを広げる。

ブッチャーは、農村開発と貧困緩和の戦略の主要な基本的要素は、雇用創出を強化する全体的なアプローチに基づいたものでなければならないことを繰り返し述べ
べて結んでいる。それは、農業と農業外活動の多様化、人間の基本的ニーズを満たすのに役立つ手段によって導入された、安定して持続性のある経済成長の促進、そして、現地の所有権と貧困層のエンパワーメントを確実にするための、社会資本の構築などによるものである。

ミヤ・モンは、1950年代以降の開発の様々な枠組みを評価し、工業化と都市の発展を優先し、農業と農村の開発を忘れたことが、今日のアジア諸国の中に、それを特に南アジアで、高い農村貧困の発生が根強く存在する理由であると主張する。「貧かた例を除き、貧困者のほんと 80 パーセントは農村地域に住んでおり、農村の現象として貧困が支配的であることを示唆している。」

彼は、1979年のCIRDAPの設立は、「農村貧困の理論と事実を統合させる必要性に基づくもの」であったと主張する。「農村開発に対するそのアプローチは、発展、平等、安定性、および持続性を促進する広範な枠組を対象としている。このような目的でCIRDAPは、加盟国の貧困者のための農村開発政策を策定し実施するよう、様々な方法で働きかけている。その調査研究部門は、実施中の農村開発計画と、それが貧困緩和に寄与のインパクトの継続的な監視、評価、および批判的分析を行っている。調査研究の実施に加え、CIRDAPは、農村開発のベスト・プラクティスの普及に関わっている。また、CIRDAPは、参加型アプローチを支援し、農村貧困緩和の複雑な問題と取り組むために、ベスト・プラクティスと革新的な調査研究の交流を進めることで、アジア地域の農村開発の理論と実践を組み合わせることが重要であることを明らかにしながら、アジア地域におけるCIRDAPの役割についての彼の概要を結んでいる。

複数の著者によって本書に提供された様々な経験についての要約は、農村貧困緩和の主要な目的に関連する多くの課題をすべて網羅しようとするものではない。むしろ、開発途上国における長年にわたる農村経済の停滞、広範囲に及ぶ貧困、そして機会の欠如を改善する代替政策のために、より創造的思考と人間な計画を必要とする研究分野における、ベスト・プラクティスについての議論に貢献しようとするものである。本書におけるこれらの事例の検討は、特定の開発状況における農村貧困緩和の計画とプロジェクトの様々な実施方法と、それらが他の国の専門家や実施機関に与えた教訓を例証しようとするものである。各ケーススタディが、最もうまく機能した事例と不利な結果をもたらなかった事例を例証し、プロジェクト実施という最も不完全な世界に、いかに理論的命题を適用するかを日々考えている人々に役立つことを望むものである。
PART 1

Strategies of Development and Rural Poverty Reduction
CHAPTER 1

Confronting the Challenge of Rural Poverty in Latin America

By Albert Berry

Background Considerations

Who are the Rural Poor and What Determines Their Numbers?

By nearly all the definitions of poverty in use or proposed, the phenomenon is more serious in rural than in urban areas. For the developing world as a whole at this time the rate of urbanization is about 40% and about three quarters of the poor (by the most common definition) live in rural areas (IFAD, 2001, iv). In Latin America the share of the poor found in rural areas is a little under 35% (33.8% in 2002--Table 1) and the share of the indigent found there is still nearly 50% (47.2% in 1997).

Is the Level, the Composition, or the Severity of Rural Poverty Significantly Sensitive to Its Definition?

Traditional measures of poverty, which relate it exclusively to purchasing power, may be misleading for any of a variety of reasons, perhaps especially in the case of rural poverty. These reasons include the fact that income or consumption measures carried out at the family level (e.g. per capita family income) do not make any distinctions by gender, age or position within the family. Such measures also miss everything of possible relevance that is not wrapped up in or closely correlated with absolute ex-post purchasing power: exclusions include the positive benefits of having a job, the consumption of public services not traded in the market and hence not related to purchasing power, the “ex-ante” opportunity to choose freely among a wide range of career and life options (often referred to as “equality of opportunity”), and especially, one’s income or purchasing power relative to that of others, which is demonstrably important to people’s reported levels of satisfaction. The “Basic Needs “ approach to poverty, which became popular in the 1970s attempted to rectify the narrowness of the standard income/private consumption approach by drawing attention

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* Dr. Albert Berry is Professor Emeritus of Economics and Research Director, Program on Latin America and the Caribbean, Centre for International Studies, University of Toronto, Canada.
TABLE 1A Incidence of Poverty and Indigence 1980-2002

<table>
<thead>
<tr>
<th></th>
<th>Percentage of Households</th>
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<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Poor*</td>
<td></td>
<td>Indigent*</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>URBAN</td>
<td>RURAL</td>
<td>TOTAL</td>
<td>URBAN</td>
<td>RURAL</td>
</tr>
<tr>
<td>1980</td>
<td>35</td>
<td>29.8</td>
<td>59.9</td>
<td>18.6</td>
<td>10.6</td>
<td>32.7</td>
</tr>
<tr>
<td>1990</td>
<td>48.3</td>
<td>41.4</td>
<td>65.4</td>
<td>22.5</td>
<td>15.3</td>
<td>40.4</td>
</tr>
<tr>
<td>1997</td>
<td>43.5</td>
<td>36.5</td>
<td>63.0</td>
<td>19.0</td>
<td>12.3</td>
<td>37.6</td>
</tr>
<tr>
<td>1999</td>
<td>43.8</td>
<td>37.1</td>
<td>63.7</td>
<td>18.5</td>
<td>11.9</td>
<td>38.3</td>
</tr>
<tr>
<td>2000</td>
<td>42.5</td>
<td>35.9</td>
<td>62.5</td>
<td>18.2</td>
<td>11.7</td>
<td>37.8</td>
</tr>
<tr>
<td>2001</td>
<td>43.2</td>
<td>37.0</td>
<td>62.3</td>
<td>18.5</td>
<td>12.2</td>
<td>38.0</td>
</tr>
<tr>
<td>2002</td>
<td>44.0</td>
<td>38.4</td>
<td>61.8</td>
<td>19.4</td>
<td>13.5</td>
<td>37.9</td>
</tr>
</tbody>
</table>

* Estimate corresponds to 18 countries in the region, including Haiti.
* Percentage of people whose level of income is below the poverty line. Includes indigents.
* Percentage of people whose level of income is below the line of indigence.

TABLE 1B Number of poor people and indigents 1980-2002

<table>
<thead>
<tr>
<th></th>
<th>Persons in Millions</th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Poor*</td>
<td></td>
<td>Indigent*</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>URBAN</td>
<td>RURAL</td>
<td>TOTAL</td>
<td>URBAN</td>
<td>RURAL</td>
</tr>
<tr>
<td>1980</td>
<td>135.9</td>
<td>62.9</td>
<td>73.0</td>
<td>62.4</td>
<td>22.5</td>
<td>39.9</td>
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<tr>
<td>1990</td>
<td>200.2</td>
<td>121.7</td>
<td>78.5</td>
<td>93.4</td>
<td>45.0</td>
<td>48.4</td>
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<td>1997</td>
<td>203.8</td>
<td>125.7</td>
<td>78.2</td>
<td>88.8</td>
<td>42.2</td>
<td>46.4</td>
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<tr>
<td>1999</td>
<td>211.4</td>
<td>134.2</td>
<td>77.2</td>
<td>89.4</td>
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<td>46.4</td>
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<tr>
<td>2000</td>
<td>207.1</td>
<td>131.8</td>
<td>75.3</td>
<td>88.4</td>
<td>42.8</td>
<td>45.6</td>
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<tr>
<td>2001</td>
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<td>138.7</td>
<td>75.2</td>
<td>91.7</td>
<td>45.8</td>
<td>45.9</td>
</tr>
<tr>
<td>2002</td>
<td>221.4</td>
<td>146.7</td>
<td>74.8</td>
<td>97.4</td>
<td>51.6</td>
<td>45.8</td>
</tr>
</tbody>
</table>

* Estimate corresponds to 18 countries in the region, including Haiti.
* Number of people whose level of income is below the poverty line. Includes indigents.
* Number of people whose level of income is below the line of indigence.


to other determinants of welfare. The narrower definitions of basic needs tended to focus on minimum food intake and access to health, education and housing services. Broader definitions included factors such as social exclusion and discrimination on grounds of ethnic group, religion or gender. Indicators like the UNDP’s human development index are a hybrid of the standard purchasing power measures and the basic needs elements. The recent (2001, 3) IFAD study of rural poverty uses income, exclusion/
discrimination and basic services, as well as discussing the psychological aspect of a life attitude with low self-esteem. An aspect of rural life that should be included among indicators is insecurity related to violence, extremely prevalent over recent decades in Colombia, much of Central America, Peru, and to a lesser degree, elsewhere. Unfortunately reasonably reliable data on levels of violence are difficult to get.

The issue we confront in any specific analysis of rural poverty in Latin America is how much the choice of definition affects the appropriate policy response. It is arguable that the main defects of the standard measure are: (i) a tendency to understate the severity of poverty by allowing only for its absolute but not its relative component, whereas in fact the poor may suffer the pain of both absolute and relative deprivation; (ii) a failure to distinguish the situation of family members by gender and by age, and (iii) the possibility that welfare/deprivation is associated with conditions not closely related to absolute or relative income or to other indicators taken into account, such as education, housing, etc.

What are the Important Issues Affecting Understanding of and Policy for Rural Poverty in Latin America?

There is considerable consensus on many of the policies that should be used to alleviate rural poverty, but much less agreement on which are the highest-priority steps. Some of the debate on this "short list" of about a half-dozen key policies focuses on these questions:

1. Does agrarian reform have serious potential? It is usually considered to be one of the key factors contributing to the overall success of development in Taiwan and Korea. If agrarian reform of some sort still has potential, can the market-friendly reforms currently being tried do the job?

2. Are the other traditionally-cited sources of agricultural prosperity, such as raising crop yields, raising cropping intensity, and improving the mix of crop and animal production, still major potential sources of poverty alleviation? If so, the associated support policies like technical assistance, improved markets, and credit will also be important. Alternatively, are these policies sometimes ineffective in improving the lot of the poor, either because they make agriculture more attractive to the rich, who then manage to increase their share of land; because they facilitate a modernization process that lowers the demand for labour; or because they do not reach the small farmers in sufficient numbers or degree?

3. Can rural non-agricultural activities play a big role? If so, are they sensitive to policy? And if so, to which instruments?
How important is human capital, and which kinds of it are important?

Should policy encourage rural to urban migration?

Might freer trade help lessen rural poverty, and more generally, will market-friendly reforms help or hurt?

How much does our definition of rural poverty and of what to do about it affect how we interpret it?

**Rural Poverty Patterns and Trends in Latin America**

*Overall Economic Growth and Poverty Reduction*

Against the general background of very high levels of poverty and extreme poverty—far higher than might be considered normal given the average income levels of the region—has some progress been made over time? The answer is certainly yes, both over the period for which we have some quantitative income evidence and over the longer stretch for which data on education, housing conditions, life expectancy and other indicators is available.

The region achieved an impressive 5.5% growth of GDP and about 3% in GDP per capita between 1945 and 1980. During this period it appears that the severity of inequality, as judged by the figures available, mainly for urban areas but in some cases for rural as well, changed little from its extremely high initial level. As each decile of regional income distribution received about equal increases, the level of poverty (defined in terms of a poverty line used by Altamir, 1982) fell from around 65% in 1950 to around 25% by 1980 (Berry, 1997, 4). The crisis of the 1980s pushed this back up to about 35%, from where it has fallen only marginally since the return of a modest regional growth rate of 3% in the 1990s. Poverty reduction was slower during this decade than over the long post-war expansion, both because economic growth was slower and because instead of remaining relatively constant as before, national income distributions tended to become more unequal. Some observers blame mainly the crisis itself (Morley, 1995) for the tendency toward a worsening of national distributions over that period, but other factors must have been at work as well. There has been a general coincidence of timing between the onset of the economic reforms and the increases in inequality. We would expect the effects on rural poverty to depend substantially on whether trends in rural inequality have or have not mirrored broader trends.

*The Aggregate Picture in Agriculture*

During the lengthy (1945-1980) phase of rapid overall growth at an average of 5.5% per year, agriculture was also registering good growth—3.5%
per year over 1950-80 (ECLAC, 2000a, 11). The composition of growth by products suggested that its benefits were mainly concentrated among the middle and large producers (Ocampo, 2000, 5). Larger, technologically more modern farms have produced such “commercial” crops as sugarcane, cotton, soybeans, oil seeds, dairy cattle and most of the coffee. Several of these, together with fruits, vegetables and other livestock products were the main new export sectors. Roots and tubers, on the other hand, have been stagnant for several decades. The shift to modern commercial crops predates the adoption of more outward-oriented strategies in the 1970s, 1980s and 1990s (different countries at different times). The commercial-traditional crop break might suggest that the process of rising agricultural exports exerted upward pressure on the level of inequality: between 1964 and 1986 subsistence crops, produced mainly by the peasant sector, grew at just 2% per year while export crops, mainly from the medium and large commercial sector, grew at 4.1% (Weeks, 1995 16, citing IDB, 1986, 74).

Productivity, however, appears not to have been stagnant in the small-farm sector, at least in some countries.\(^1\) The experience of Brazil during its fast growth period up to 1980 is of particular interest given the extreme inequality both in rural areas and overall, and the highly unequal distribution of land.\(^2\) Agricultural output (value added) was rising fast, at 4.8% per year over 1950-75, implying labour productivity growth of 3.5% per year (Berry, 1989, 186). This period seems to have seen a maintenance of the wide land productivity gap in favour of the smaller farms (Berry, undated). During the 1970s there was a rapid spread of the use of machinery on fairly small farms; the share of farms with 5-10 ha. that used mechanized power rose from 4.3% to 24.5%. Over 1958-80 the use of modern inputs (fertilizers, pesticides, animal feed, etc.) rose by about 400% on a per hectare basis for agriculture as a whole, and by perhaps 200-300% on the smaller farms, and was an important factor in rising land productivity. Credit availability also rose markedly over this period, including a considerable gain for those in the 5-10 ha. range. Income surveys and wage series reflected the same large gains. Though gains went disproportionately to the better off, both regionally and in other respects, those accruing to the poorest were impressive in absolute terms. In Colombia and Mexico, evidence also shows periods of dynamism on small farms.

\(^1\) Unfortunately data by farm size are not readily available for many countries even though other features of the growth process in agriculture are.

\(^2\) This experience is discussed in detail by Thiesenhusen and Melmed-Sanjak (1990).
During the 1980s agriculture suffered from the overall economic crisis afflicting the region. Sectoral growth fell to 2.1% in the 1980s, while GDP growth slipped to just 1.0%. During the crisis and into the early 1990s new market-friendly reforms were put into place so a better performance was expected for that decade. But agricultural growth only rebounded to 2.3% (1990-98) as GDP accelerated to just 3.5%. Clearly, the expectation that the new model would correct the “biases against agriculture” has not been satisfied (Ocampo, 2000, 1). An important part of this story is the evolution of macroeconomic policies and the dismantling of the traditional support instruments for agriculture without their replacement by anything equally effective. On the macroeconomic side, the framers of the new policy expected a real devaluation, but the capital inflows and the renewed use by the monetary authorities of strong exchange rates to fight inflation led instead to a generalized revaluation. Further discouraging output growth was a downward shift in international prices of agricultural goods. It was in this respect an unfortunate time to choose to go “international,” as far as agricultural producers as a group were concerned. To some degree, the price movements were the result of so many countries with comparative advantage in agricultural products making this policy change at around the same time.

Changes in support policy involved a dismantling or reduction in the scope of development banks and sectoral credit lines; reduction of public sector involvement in marketing; elimination or drastic reduction of free technical assistance, partially substituted by private assistance backed up by subsidies; some subsidized market land reforms; an emphasis on titling and regularization of land registration; and generally more decentralized support systems. With all these changes came a strong institutional instability, which has been prejudicial. Gaps have arisen which have been especially damaging to small and medium producers whose access to credit, technical assistance and marketing options has been severely affected (Ocampo, 2000, 11).

Given the slow (in some countries negative) growth of the agricultural labour force, average labour productivity in the sector has been rising fast, at 2.3% per year over 1970-98. The trend in urban labour productivity was slightly negative (-0.3%) over this same period, so there was a major convergence of the relative labour productivity of agriculture vs.

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3 The proponents of the new model placed a lot of emphasis on indirect taxes on the agricultural sector through protection and overvalued exchange rates, elements which created the “bias” against agriculture. Tax policy, however, tended to favour agriculture, and considerable infrastructural expenditures went that way as well, so it may be that the bias was substantially overestimated by some.
non-agriculture from 19% in 1970 to 34% in 1998 (Ocampo, 2000, 21). It was present in each decade, though most pronounced in the crisis of the 1980s, when urban labour productivity was falling in absolute terms. Under a number of circumstances this convergence would bode well for agricultural incomes and for income distribution overall, in particular if the growth in agricultural productivity translated directly into income growth (i.e. there was no fall in the sector’s terms of trade with the rest of the economy or more precisely with whomever it trades) and if the lower income members of the agricultural sector gained income as fast as the average. On the first point, the fact that international prices of agricultural goods were falling probably means that the income convergence was considerably smaller than the productivity convergence. On the second count, it is important to have direct evidence on incomes. Unfortunately, that evidence is of doubtful quality for most countries.

Measuring Trends in Rural Income Distribution and Poverty

While the available figures on rural poverty do give a reasonable picture of where that poverty is found and of its gravity, assessment of trends is much more difficult given the weaknesses and gaps in the information and the very limited amount of serious analysis which has been applied to it. Accordingly, it is not possible to trace the evolution of rural poverty in the region with any precision, nor to reach definitive judgments on how events in the rural areas may have affected poverty and distribution. Used judiciously, however, the available information does provide a starting point and some useful leads.

Recent ECLA regional estimates (reported in Table 1) suggest broadly similar patterns of change in the incidence of poverty in rural and urban areas, albeit with interesting differences in some countries.4 Reported poverty rates are much higher in rural than in urban areas, with the ratio falling over 1980-2002 from about 2:1 to 1.6:1 for poverty incidence and staying roughly constant at 3:1 for the incidence of extreme poverty or indigence. These data point to a sharper increase in urban than in rural poverty over the 1980s (from 40.5% to 48.3% for the former, compared to 59.9% to 65.4% for the latter) but to more or less comparable increases in the incidence of extreme poverty (from 10.6% to 15.3% and from 32.7% to 40.4% respectively). Between 1990 and 2002, estimated urban

4 World Bank estimates (World Bank, 2000) which apply a standard poverty line of U.S. $1.08 per person per day, come up with much lower figures for poverty incidence but also show little change over the 1990s.
### TABLE 2: Poverty and Indigence, by Countries, 1979-1997

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### Priorities and Strategies in Rural Poverty Reduction

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* Average of the figures for Rio de Janeiro and São Paulo.

* Calculations based on national socio-economic surveys (CASEN) from 1987, 1990, 1992, 1994, and 1996. The estimates are consistent with the new figures on household income and spending accounts provided by the Ministry of Planning and Cooperation.

* The sample is too small to make estimates for the Federal District.

* Figures provided by the National Institute of Statistic and Informatics (INEI), based on the National Household Survey (ENAHO) for the fourth quarter of 1995 and 1997.

* Estimate for 10 counties of the region.
poverty fell from 41.4% to 38.4% while that in rural areas fell from 65.4% to 61.8%. Extreme poverty fell in urban areas from 15.3 to 13.5% and in rural areas from 40.4% to 37.9%. Thus at the end of the nearly two-decade period 1980-97, urban poverty was significantly higher than at the beginning and extreme poverty a little higher, while rural poverty a little higher and extreme poverty significantly higher. Given the deficient quality of the rural figures, it is evident that at best they can provide an approximation to what has been happening.

The decline in rural poverty reported by ECLAC for the region as a whole during the 1990s appears to be due primarily, perhaps exclusively, to a reported sharp decline in Brazil, from 64% of households in 1990 to 46% in 1996 (Table 2), a decline matched more or less by that reported for urban areas (36% to 25%)\(^5\); such progress on the poverty front may seem surprising in light of the modest growth achieved by the country over those years, though one widely recognized and probably important contributing factor has been the extension of the pension system to rural dwellers over 60 who had not contributed during their working life (Morley, 2003).\(^6\) The indicators shown in Table 3 (from Statistical Abstract of Latin America, 2000, citing ECLAC sources) reveal a sharp increase in Brazilian inequality between 1979 and 1987 in both urban and rural areas, but especially the latter. Between 1987 and 1993, according to these figures, rural inequality stayed about constant while urban inequality fell. During the 1970s, the last decade of growth, both urban and rural poverty incidence fell. In contrast, over the 14-year period 1979-1993 taken as a whole, the two poverty levels moved in opposite directions: while urban poverty incidence climbed steadily from 30% of households in 1979 to 39% in 1993, rural poverty fell from 62% to 51%. This unusual combination of trends was a result of the fact that while average urban household income fell by 20%, it rose by 22% in rural areas, for a remarkable convergence from the 1987 gap of 56% to a 1993 gap of just 33% (Table 3). The falling rural poverty rate was just about enough to offset the rising urban one, so that over 1979-93 the overall poverty rate rose only a little, from 39% to 41%.

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\(^5\) The incidence of poverty measured by persons is higher, but the trends for Brazil are similar (CEPAL, 2004, 265).

\(^6\) Other statistical evidence raises some doubts as to whether rural poverty did fall as much as indicated in Table 2. Earlier figures show a smaller decline in rural poverty in Brazil, but we assume that the later figures are the more reliable. It is also true that the poverty reduction is somewhat less when defined in terms of persons than in terms of households.
Among countries for which reasonable quality data are available, Chile also reveals markedly falling rural poverty. This is not surprising given the rapid average income growth. Although the Gini estimates of rural inequality show one surprising outlier (in 1990), it appears that inequality changed little in either rural or urban areas over the period 1987-96. Given that average urban and rural incomes rose by about the same 50-55% over that period, poverty rates would be expected to fall and did so, although both the urban and the overall incidence of poverty in 1996 was still above that of 1970, if the figures are comparable; in the rural areas the rate was at about the 1970 level. In Chile the rural-urban gap in reported poverty rates is relatively small and in fact the incidence in “other” urban areas has in some years been above that in rural areas.

The pattern of change in Costa Rica is broadly similar to that of Brazil in that, over the whole period 1970-1994 (or 1980-94), urban poverty incidence rose while in rural areas it fell. The average income differential between rural and urban areas is small, usually around 15% or less. Peru’s reported household poverty incidence jumped sharply in urban areas between 1970 and 1986 (28% to 45%) but dropped marginally (68% to 64%) in rural areas; the reported gap thus narrowed greatly between these years. Though these figures are not methodologically comparable, they are reported because of the interest they would warrant if further analysis showed that this result was in fact a credible one. In the case of Mexico, rural and urban poverty levels remained almost constant over 1984-94, for which period the figures are reasonably comparable. Urban inequality rose, but in rural areas it remained about constant, considerably below the urban level. But because average urban incomes grew a little while rural ones fell a little, poverty remained essentially stable in both cases. Pre-1984 data are less comparable to each other than those after that date.

Did rural poverty behave as benignly as ECLAC’s regional estimates of Table 1 suggest, rising proportionately much less than urban rates during the difficult 1980s, and rising much less over the period since 1980 taken as a whole? There are enough cases of narrowing reported poverty gaps between rural and urban areas to make this pattern worth some analysis. The two most obvious general hypotheses to explain it would be (i) faster growth of marginal labour productivity in agriculture than in non-agricul-

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7 In fact, the pattern is also apparent for Mexico between the 1977 and 1984 observations.
8 The poverty figures in Table 2 for Colombia, Guatemala, Bolivia and Honduras are not commented upon here either because there are known or suspected non-comparabilities over time (e.g. Colombia, Honduras, Guatemala), the period covered by the rural data is too short (Uruguay) or the country is too small (Panama).

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<td>8.4</td>
<td>9.3</td>
<td>7.5</td>
<td>6.1</td>
</tr>
</tbody>
</table>

1 Average monthly household income divided by the poverty line per capita
2 Proportion of income received by the 25% poorest households
3 Great Buenos Aires
4 Includes 8 department capitals and El Alto. The 1989 survey includes 8 more cities representing 8.2% of the total
5 1978, 1988 figures are for Great Santiago and are based on consumption expenditures of households this is part of a survey to indentify households' budget
6 Calculations based on data from the National Socioeconomic Survey (CASEN) for 1987, 1990, 1992 y 1994. Estimations are adjusted to the last figures on household income and expenditures reported by the Ministry of Planning and Cooperation (MIDEPLAN)
7 Eight main cities up to 1992. From 1993, household surveys increased their coverage from about half the population to almost all people.
8 Special tabulations based on household income surveys.
9 Asuncion

ture, and (ii) a sufficiently rapid rate of rural-urban migration to cut into the normal income advantage of urban dwellers. Another hypothesis is that the pattern of public subsidies played a role. Ocampo (2000, 25) notes that in two of the three countries where reported rural poverty reduction was most marked in the 1990s, Brazil and Chile (the other was Panama) the reduction was closely tied to an allocation of transfers and state subsidies targeted to the poorer sectors (CEPAL, 2000a, 42; Dias David, 1999).9

**Basic Needs Indicators and Rural Poverty Trends over the Longer Run**

Welfare/poverty indicators other than income are useful both as a cross-check on the validity of reported trends in that variable and for their own inherent interest. Most such indicators show clear improvements over the longer run (they cover periods for which rural income data are sparse or non-existent); they also show smoother improvement than do the income figures. In some cases, where incomes are stagnant or even falling but certain basic needs indicators register improvements, this can be attributed to their including publicly provided goods or services (e.g. health and education). In the case of housing, the most plausible interpretation would be that housing conditions reflect wealth more than current income and that it is possible for the former to be improving even when the latter is not.

There are few estimates of life expectancy for rural areas, but for countries that are still mainly rural the rapid rise in this indicator at the national level makes it clear that improvements must have been occurring in both rural and urban areas. Such improvements reflect better economic conditions and government efforts to eradicate diseases and to provide primary health care. In Colombia, for example, yellow fever was brought under control early in the 20th century. Beginning in 1958 an extensive program of malaria eradication was initiated in cooperation with PAHO, UNICEF and the United States (Berry, 1978, 369). At the time nearly 8% of the population was infected (with doubtless a higher percentage in rural areas), making this disease the fourth greatest cause of illness in the country. By 1972 it was believed that less than 0.3% of the population carried the malaria plasmodia. The mortality rate from tuberculosis, another disease afflicting a large segment of the rural population in earlier times, has followed a steady downward trend.

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9 Since the income surveys which have provided the basic source of evidence on poverty trends do not normally pick up all the effects of such targeted subsidies (when in monetary form, this is more likely; when in the form of price subsidies for example, less so) the interpretation of this correlation is unclear. It may be that such programs not only benefit the poor in direct but often unmeasured ways, but also help them to raise their recorded incomes.
Educational attainment is the best-measured component of basic needs and here too the advances have been substantial. For example, 1993 data for Colombia show an illiteracy rate of 4.4% for the 12-17 age group (by which age virtually everyone who is going to achieve literacy while a youth will have done so), 2.5% in urban areas and 8.6% in rural areas.\textsuperscript{10} For everyone 12 and up the illiteracy rate was 5.3% in urban areas and 18.4% in rural areas. For people born before 1928 (those 65 years or more in 1993) the urban illiteracy rate was 19.4% and the rural one 45.3%.\textsuperscript{11} Such improvements have been fairly typical for the region. In Brazil the illiteracy rate for rural youth 10-14 was probably in the range of 20% by 1995 while for those born before 1925 it was not far from 70%.

**Policy Options**

**Economic Growth**

Although in principle poverty could be greatly reduced in most Latin American countries by a moderate change in income distribution, the whole of the poverty reduction achieved over the last few decades, during which we have moderately useful data on income inequality, has been associated with growth in average per capita income without any improvement in the distribution of that income. Though the past may not impose strict limits on what will happen in the future, it does highlight the cautionary message that growth could once again be the main, or perhaps the only, mechanism that pulls people out of poverty.

While the distinction between growth and improved distribution as the two possible broad sources of poverty reduction is useful in a certain mechanistic sense, it becomes a risky oversimplification if taken to imply that “growth is growth” and all that matters is its rate. Rather, it is essential to distinguish among types of growth processes, in particular between those which tend to improve distribution as growth occurs and those that tend to worsen it.

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\textsuperscript{10} Based on data published in the UNESCO Statistical Yearbook. Trends over time can also be analyzed through changes in the adult illiteracy rates over time.

\textsuperscript{11} Berry (1978, 359) estimates that the rural literacy rate (for persons 14 years and up) rose from around 35% in 1918 to about 47% in 1938, 59% in 1965 and 65% in 1973. In 1941 only 30% of rural schools went beyond grade two. Quality was also a very serious problem. As late as 1967 only a quarter of rural primary teachers had any kind of diploma; in 1932 the figure was just 9%. As recently as 1967 about 15% had no more than primary education themselves. As of 1970 less than 10% of the primary school budget went to rural areas, although about 40% of primary enrolment was located there (Arnove, 1980).
Components of a Strong Rural Poverty Alleviation Strategy

Rural poverty reduction has been fastest and/or the level of rural poverty lowest in countries or regions with the following characteristics:

1. fast growth of both agriculture and rural non-agriculture;
2. a relatively equitable distribution of land;
3. a good base of rural infrastructure, including roads, irrigation works (where relevant), communications, etc.;
4. good, broad systems of education and health care (though the extent to which these contribute to good and equitable growth, as opposed to being the result of it, is not directly apparent);\(^{12}\)
5. high rates of savings and investment in the rural economy, often involving investment of agriculture-based savings in non-agricultural activities;
6. an effective system of research and extension, which not only reaches agriculture as a whole but especially the smaller, poorer farmers and the regions where they are concentrated;
7. a price system that is not biased against the products sold by the rural poor and, while not disassociated from world prices, provides somewhat greater price stability for both producers and consumers than does the international market;
8. socio-political stability, low levels of violence and clear laws and rules on rights to land, to water, etc.;
9. falling birth and population growth rates.

Factors such as social cohesion and effective institutions are likely to underlie the adoption and effective implementation of such policies.

There is much agreement on most of these general objectives of rural and agricultural policy. Although it was not always so, few would now dispute the need for an efficient small-farm sector. On the relative importance of various elements of the policy package and the details of implementation there are naturally differences of opinion. The main cleavage at

\(^{12}\) When poverty is defined not just in income or material consumption terms but also with a more direct concern for welfare, the importance of a good health system becomes clearly important, and a good educational system should be thought of as important not just for its impacts on output and growth but for the direct "consumption-type" benefits it can bring to people from being able to read, calculate, etc.
present, however, is between proponents of market-friendly approaches and others who, in varying degrees, are less convinced of the merits of this approach. It is thus useful both to summarize briefly the broad character of this debate and also to take note of its manifestations in various policies, which both sides often agree to be relevant.

A key element of the new paradigm—openness vis-à-vis international markets—is central to thinking on both sides of whether the policy shift will help to alleviate poverty. Thus far the evidence is mixed. It is worth distinguishing the effects of freer trade per se—which is expected to raise the production of exports and diminish that of import substitutes—from the effects of free capital flows, which may lead to less stable trade balances and periodic import surges. The effects distinguished by Carter et al (1996) in Chile, Paraguay and Guatemala reflect the former, while the surge of imports in Mexico and their impact on small corn farmers reflect the latter. As Carter and Barham (1996, 1137) confirm, the Chilean export boom squeezed the peasant sector and was thus an exclusionary experience (Jarvis, 1989; Cox, de Zepeda and Rojas, 1990; Ortega, 1988). Few small farms produced lucrative export crops; fruit cultivation involves a significant gestation period before returns start to flow—difficult or impossible for small farms without good access to credit—and also standardized production and packaging, which is another hurdle. Export credits were available but not to parceleros (Carter and Barham, 1996, 1140). In the absence of support from government or producers’ associations to bear some of the cost of these services, the small farm sector was excluded from the fruit boom, in spite of the fact that the fruit crops are generally labour intensive (which did partially offset the negative effects of small farmer exclusion) (Carter and Barham, 1996, 1137).

In Paraguay, the direct effects of that country’s agricultural export boom were more uniformly negative for small farmers and for lower-income people. The main export items, cattle, wheat and soybeans, are not labour intensive. Paraguay’s institutions and the distribution of power during the dictatorship were hostile to the interests of these groups.

The experience of winter vegetable products in Guatemala is considerably more positive and promising than what happened in Chile or Paraguay, yet still reveals the serious obstacles to finding an agricultural export boom whose benefits would redound significantly to the small farmers and the poor. These very labour-intensive crops should provide the ideal opportunity for heavy small-farm involvement in an export activity. This promising option has had its limitations, however. Most immediately, access to the U.S. market was threatened by the discovery of insecticide residues on some products. Another factor limiting the extent
of benefits to small farmers from these exports has been their disinclination to allocate a large proportion of their land to such production, which Barhan et al interpret in terms of the small farmers’ inability to capitalize on and bear the risks of export operations of a size such as to require hiring of significant amounts of non-family labour. The case underlines the possible importance of financing limitations and, more generally, the gap between a traditional small-farm setting, with its various constraints, and a modern, capitalized and export-oriented small-scale agriculture.

The above examples and similar ones leave no doubt that the impact of trade liberalization and other reforms depends greatly on initial conditions and on complementary policies. The initial distribution of land by size is an obvious condition; Bourguinon and Morrisson (1989) report that the impact of agricultural exports does seem to depend, as one would expect, on the distribution of the land on which they are produced. The onset of an export boom can also bring significant change in the distribution of land. It would be reassuring to believe that the resulting transfer was systematically voluntary and efficiency-enhancing. Often, however, it is involuntary and based on power, sometimes manifested in the use or threat of violence (Berry, 2001). On other occasions it reflects the fact that the larger, better-financed farms can accumulate more valuable land even though their productivity potential is no greater or even less than that of smaller units who may take longer to reach their potential from any given starting point.

Challenge and Response

Several main elements define the character and the severity of the challenge which rural poverty poses to the governments and societies of Latin America.

First, the level of poverty is high in absolute terms and even higher in relation to the average income levels of these countries, due to the extreme inequality of income distribution in most of them. Some countries and certain regions of others have especially high concentrations of rural poverty.

Second, most of the rural poor are either small producers (usually in agriculture but often engaged in non-agricultural microenterprise) or paid workers, again either in agriculture (in which case the term "landless workers" is often applied) or in non-agriculture. With typically 80-90% of the rural labour force engaged in small or fairly small enterprises, either in agriculture or in other activities, the chance of rapid income increases for a broad share of this labour force is likely to rely mainly on how well these smaller units do, how much they invest, how fast their productivity
increases, whether savings from one sector can be effectively transferred to other sectors, etc. If the government policy and support system is not able to contribute to the capabilities of these smaller units, hopes for rapid poverty alleviation must rely on the demand for labour from urban areas and from larger rural enterprise. In the more urbanized countries, this may be enough to have a significant positive effect in boom times; in the more rural countries such an outcome is less likely.

Third, a substantial share of poverty in Latin America is suffered by indigenous people and those of African descent. Repression and discrimination against these groups has been extreme in some countries, less so in others. Given the combination of their limited political voice and the historical unwillingness of the dominant groups to treat them fairly, it will be a great challenge to turn policy around enough to quickly lower their poverty rates.

Fourth, the region has over the last two decades suffered through a grave economic crisis followed by a set of jarring reforms that have not yet produced an adequate rate of growth. At the same time, levels of inequality have risen in a number of countries, possibly in part as a result of the reforms. So, the incidence of poverty is at about the same level as 20 years ago, both overall and in rural areas. Though the crisis is now past, the character of the growth process during the 1990s is of great concern. In a number of Latin American countries the employment elasticity of growth (more precisely the amount of reasonably remunerative employment associated with a given amount of growth) has fallen. The main evidence is not so much increases in open unemployment (although these have occurred in some countries) but changes in the composition of net new employment and the presumably associated increases in income inequality. Whereas in the 1970s agriculture, the public sector and the large-scale private sector together accounted for about 55% of net employment growth, over the 1990s these three traditional sources probably accounted for only 5-10% of that net employment growth. Small and medium non-agricultural enterprise appears to have increased its share somewhat but the big increase was registered by microenterprise, from about 25% to 60-65%. It appears likely that these trends will continue in the absence of a combination of faster growth and significant policy changes/improvements. If it is true that the sort of growth countries have been experiencing creates a smaller amount of remunerative employment than before, this would imply that policy will need to address the employment issue more carefully than in the past in order to improve the outcomes. Determining what set of factors has in fact produced the worrisome pattern of the 1990s, while certainly
of interest, may or may not be central to framing an appropriate policy response. The first priority is to identify policies, of whatever sort, which will make the future growth pattern more employment-friendly and hence healthier than in the recent past.

Fifth, one of the economically most promising potential sources of poverty alleviation in rural areas, land reform, has had little application in Latin America, due historically to the position of power occupied by the largeholders and more recently also due to a preference to do as much as possible “by the market.” Whatever the merits of market-friendly land reform, it seems unlikely that it will achieve a measurable impact on poverty at the aggregate level.

Sixth, when considering the challenge of rural poverty reduction and eradication in Latin America, one must bear in mind that the pockets and regions of remaining poverty typically have a long history of low incomes, usually related in part to subpar resources (Northeast of Brazil, Southern Mexico, Southern Colombia, parts of the highlands of Peru, etc.) and in part to weak policy. Can these concentrations of poverty be eradicated by the same policies that work elsewhere, or do they need stronger doses or even qualitatively different policies? A pessimistic view is that eradication will be harder here, even now, than it was earlier for some other zones. The contrasting view is that when few pockets are left they can more easily be targeted for policies that will do the job and that emigration from them will always remain as a safety valve.

There are, fortunately, a number of positive elements in the present context. First is the quantitative evidence that, in spite of many things that would be expected to have (and in some cases no doubt have indeed had) negative impacts on rural poverty over the last couple of decades, the net change has more likely been positive than negative.\[^{13}\] Either some of the negative forces have been weaker than might be expected, or there have been more positive forces at work (e.g. trickle-down effects, the benefits of subsidies targeted to poorer groups) than is generally recognized, or rural welfare levels are being held up by emigration to the urban centres, together with slowing population growth. This basic point of optimism must be qualified in several ways. First, the income data on which estimates of rural poverty are based suffer very severe flaws and could be misrepresenting actual trends (in either direction). Second, when Brazil is excluded from the regional data, the trends are much less positive. Finally, there is the possibility that the outmigration option, with associ-

\[^{13}\] This evidence comes partly from income and consumption data but also from the basic needs indicators referred to above.
ated convergence between average labour productivity in the rural and urban areas, has provided a temporary respite from the effects of negative underlying trends in the demand for labour, a respite which has worked to keep rural poverty down while tending to push urban poverty up. As labour productivity and income convergence bring the levels closer to equality, this process will lose its potential for keeping a lid on rural poverty, and the full effects of those underlying mechanisms will be felt. If the negative effects of the mechanisms themselves are beginning to slow, then it may be possible to breathe a sigh of relief.

Another reason for optimism is the increases in education that have occurred over the last half century, in rural as well as urban areas, and whose effects are presumably reflected in the positive aspects of the record thus far. This trend has raised entrepreneurial potential, increased the likelihood of good local government, raised the potential for fruitful meshing of rural non-farm activities with agriculture, and raised the potential for productive linkages (subcontracting and others) with urban activities.

Hopefully, the quality of analysis of rural poverty and rural policy issues has improved and this improvement will show through in policy. Periodic efforts at “Integrated Rural Development” were a step toward a more holistic approach to the needs of rural populations. Giving due weight to the Rural Non-Farm Activities (RNFA) may be considered a next logical step in that direction. The increasing role of NGOs as participants in rural programs will hopefully be a significant boon.

Changes whose net effects could be either positive or negative include the new fiscal tightness and the trend towards decentralization of authority and of resources (the latter less notably than the former) to local governments. Fiscal tightness will, on the one hand, make it harder to get the resources to create and expand support activities of various sorts. For example, extension services for small farmers are seriously inadequate in the region and will not on their own be supplied by private agents: Will the resources be forthcoming to significantly increase the effort in this area? The hope must be that increased efficiency in the use of public resources can more than offset decreased quantity. There is certainly ample room for raising efficiency in the use of public sector resources in most countries of the region, though how easy it will be to achieve this needed advance remains to be seen. There is some risk of swinging too far from the “incompetence and corruption” view to the “public spending is at best a necessary evil to be curtailed wherever possible” view, with negatively selective loss of personnel in the process. In short, nothing should be taken for granted in this area. The same guideline should be applied to
decentralization. This shift no doubt has the potential to improve overall public sector performance in the long run, but unless minimum conditions are met it may easily backfire in the shorter run. Moving ahead carefully and thoughtfully should be the order of the day here.

The economic crises suffered by nearly all countries of the region pushed sectoral policy into a secondary position. As long as this remains the case a number of the components of a strong rural policy package will be missing or weak. The challenge here as in public policy in general, is to shift back to a reasonable balance and in the process greatly increase the effectiveness of sectoral policy. Were the latter efficiency objective promoted by a temporary scarcity of resources for sectoral policy, it might even, in retrospect, be considered a boon that policy and spending along sectoral lines had been severely squeezed. But it is still much too early to tell; the issue is far too complicated for any simple generalizations to be likely to hold.

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CHAPTER 2

Concepts for an Approach to Rural Development in Mexico and Central America: Regional Development and Economic Inclusion¹

By Alain de Janvry and Elisabeth Sadoulet

Introduction

To attack poverty in Central America, as well as in much of Mexico, there must be a focus on reducing rural poverty and the contributions to urban poverty made by rural poverty. This requires careful identification of the nature of rural poverty, the causes of rural poverty, and possible strategies out of poverty for different categories of rural poor. In recent years, considerable progress has been made in understanding these three subjects better, because of the availability of large new data sets such as the Progresa surveys in Mexico and the LSMSs in Central America, and because of a multiplicity of innovative experiments in poverty reduction and creative thinking by many experts in the region. In this paper, we systematically characterize rural poverty in Mexico and Central America, at both the aggregate and the household level. We then identify the determinants of poverty, stressing the roles of context (regional development) and assets (economic inclusion) as the essence of income generation for rural households. Finally, we capitalize on lessons derived from experiences with rural development initiatives in Latin America and the rest of the world to formulate a list of concepts that support income generation for the rural poor, based on programs of regional development and economic inclusion. Many of these new concepts have been the fruit of the work of the Inter-Agency Group in Rural Development (see in particular the writings of Solís (1999), CIDER (2001), Valdés and Mistiaen (2000), Schejman (1999), Reardon and Berdegué (1999), Gordillo de Anda (2000), and Echeverría (2000)). We contrast these income generation programs for rural poverty reduction with the social welfare approach

¹ Dr. Alain de Janvry and Dr. Elisabeth Sadoulet are professors in the Department of Agriculture and Resource Economics, University of California, Berkeley.

¹ A first version of this paper was prepared for the IDB regional workshop, “Desarrollando la economia rural de Puebla a Panama”, Guatemala City, March 5-7, 2001.
to rural poverty reduction that has dominated the investment agenda of
governments and international lending agencies in the last decade. In this
perspective, we explore the opportunity to reorient rural development
initiatives from welfare-mitigating public expenditures to the territorial
reordering of rural areas in support of growth and poverty reduction.

The macroeconomics of rural poverty in Mexico and Central America
While poverty has become principally an urban phenomenon in the rest
of Latin America, the rural dimensions of poverty remain of considerable
importance in Mexico and Central America. The nature and recent evolu-
tion of rural poverty can be characterized as follows:

**The incidence of rural poverty remains extremely high in the region and
is much higher than that of urban poverty.**

The only two countries where the incidence of rural poverty \( P_{r0}\) is rela-
tively low are Costa Rica (23%) and Panama (34%). In the other coun-
tries, it is high (49% in Mexico) or very high (62% in El Salvador, 72%
in Guatemala, and 80% in Honduras). Using the ratio of the incidence of
rural to urban poverty \( P_{r0}/P_{u0} \), the relative incidence of poverty ranges
from 1.2 in Honduras (where the incidence of both rural and urban pov-
erty is very high), to 1.4 in Costa Rica, Guatemala, and Panama, and to
1.6 in Mexico and El Salvador.

**Poverty in the region is mainly a rural phenomenon, and even more so
extreme poverty.**

The rural sector’s share in total poverty is greater than 50% in all coun-
tries, except Mexico where it is 33%. In all countries, rural extreme pov-
erty is even more common—always above 50% of total extreme poverty.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of total poverty that is rural</th>
<th>% of extreme poverty that is rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico [1998]</td>
<td>33.3</td>
<td>52.0</td>
</tr>
<tr>
<td>Costa Rica [1997]</td>
<td>57.7</td>
<td>64.5</td>
</tr>
<tr>
<td>El Salvador [1997]</td>
<td>61.8</td>
<td>70.3</td>
</tr>
<tr>
<td>Guatemala [1990]</td>
<td>67.5</td>
<td>73.9</td>
</tr>
<tr>
<td>Panama [1997]</td>
<td>51.9</td>
<td>55.2</td>
</tr>
</tbody>
</table>
The incidence of rural poverty has been declining in most countries, but the number of rural poor has increased.

While the incidence of rural poverty has declined in many countries in the region, in none of these countries has the absolute number of rural poor declined, as opposed to other Latin American countries such as Brazil, Chile, and Venezuela. Thus, a slowly declining incidence of rural poverty and rapid rural-urban migration have not been sufficient to compensate for population growth in helping reduce the number of rural poor.

The decline in the number of rural poor relative to the number of urban poor has been mainly due to migration, not to the decline in the incidence of rural poverty.

The number of rural poor \( R \) relative to the number of urban poor \( U \) has declined sharply. However, for the region, in the periods when \( R/U \) declined and both \( P_r \) and the share of population that is rural \( r \) declined, contributing to the observed decline in \( R/U \), the relative contributions of these two causes were as follows:

- Share of the observed decline due to migration: 63% (79% in Mexico where migration has been more intense).
- Share of the observed decline due to falling incidence of rural poverty: 37%.

Hence, rural-urban migration has been the predominant factor in explaining the decline in \( R/U \). Quite obviously, many of the poor who left the rural sector have contributed to increasing the number of urban poor and also to a falling \( R/U \) ratio.

Growth has helped reduce poverty, but economic instability has had high social costs.

Both rural and urban poverty follow the economic cycle, with the incidence of poverty rising in recessions (debt and peso crises in Mexico) and falling during recovery and growth. Rural poverty is less sensitive to the economic cycle than urban poverty. Consequently, it rises less during crises, but it also falls less during recovery and growth. This result, which is also verified for Latin America as a whole (see de Janvry and Sadoulet, 2001a), stresses the fundamental importance of aggregate economic growth as the cornerstone of any poverty reduction strategy, rural as well as urban. It also stresses the high social cost of economic instability, calling for greater social concerns in macroeconomic management (Lustig 2000).
Rural inequality has been high, rising, and recently not reduced by growth.

Inequality is lower in the rural than in the urban sector. It is very high in Honduras, Guatemala, and Panama, where the land distribution is highly unequal. Inequality has, like poverty, followed the economic cycles, rising during the debt crisis and falling during recovery. However, the latest period of recovery seems to have lost the inequality-reducing power of growth, even though it has been quite effective at reducing the incidence of poverty (a pattern also verified for Latin America at large, see de Janvry and Sadoulet, 2001a). If this post-peso crisis trend is confirmed, it suggests that relying on growth to reduce inequality will not work. Instead, special interventions to redistribute assets will be needed to reduce both rural and urban inequality. However, the political economy of these redistributive policies is itself facilitated by economic growth, making growth essential not, in this case, as the redistributive mechanism but as the condition to make redistribution feasible.

There is an urban bias in the provision of basic needs.

The insatisfaction of basic needs, like the incidence of poverty, is much higher in the rural sector. In general, there has been a strong urban bias in the provision of public goods and services, with less access to health, education, and social services in rural areas. A striking example is that the infant mortality rate is more than three times higher in rural than urban Mexico, and the average educational level for adults between 25 and 59 years old is 66% of the urban level.

For countries in the region, the average number of years of study in the population 25 to 59 years old differed as follows for rural and urban populations:

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Urban</th>
<th>Rural</th>
<th>% difference rural/urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costa Rica</td>
<td>1998</td>
<td>9.6</td>
<td>6.5</td>
<td>67.7</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1998</td>
<td>8.1</td>
<td>3.4</td>
<td>42.0</td>
</tr>
<tr>
<td>Honduras</td>
<td>1998</td>
<td>7.3</td>
<td>3.5</td>
<td>42.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>1996</td>
<td>8.6</td>
<td>5.7</td>
<td>66.3</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1997</td>
<td>7.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>1998</td>
<td>10.8</td>
<td>6.9</td>
<td>63.9</td>
</tr>
</tbody>
</table>

Gains in rural education are lagging for the indigenous populations. While for non-indigenous households, members with more than 6 years of education increased by 28 percent among individuals less than 35 years of age, there was only a 14 percent gain for members of indigenous households (de Janvry and Sadoulet, 2001b).

Reverse discrimination in public expenditure on health and education in favor of rural areas and indigenous populations will be needed to rapidly correct these huge differences (a process initiated with Progresa in Mexico and Praf in Honduras).

**Conclusions**

How does rural poverty in Central America differ from that in the rest of Latin America? Like in the rest of Latin America, the incidence of rural poverty has generally declined, although very modestly, and the number of rural poor relative to the number of urban poor has also declined. However, as opposed to the rest of Latin America, poverty in the region remains primarily rural, especially extreme poverty. The absolute number of rural poor is still increasing in all countries of the region. Rural inequality also seems to be rising, and it is not responsive to growth. The past strategy of rural poverty reduction has not been successful since it has relied mainly on the out-migration of poor individuals mostly not equipped to join the non-poor in the urban sector, contributing to urban poverty. As a consequence, the incidence of urban poverty has risen and the number of urban poor has exploded. Thus, while the region has been relatively successful in managing macroeconomic adjustments, it has not been effective in reducing poverty and inequality. The rural sector remains a large reservoir of poverty, especially extreme poverty, and a generator of poverty for the urban sector.

Reducing rural poverty in the region should thus be the central focus of a poverty reduction strategy. This must be done by either lowering the incidence of poverty within the rural areas at a faster pace than in the past, to reduce the number of rural poor in spite of population growth, or by helping prepare the rural poor to relocate in the urban sector under conditions that allow them to join the non-poor.

**The microeconomics of rural poverty in Mexico and Central America**

Having characterized the nature of aggregate poverty in the region, we now turn to a micro-level analysis of the determinants of rural poverty. There are three determinants of household welfare: the extent of control over
productive assets, the quality of the context where the assets are used to generate income, and direct income transfers and basic needs programs.

**Control over assets**

Poverty is associated with lack of control over income-generating assets. Recent survey data allow us to obtain a good characterization of the rural poor and the determinants of poverty. These include the LSMS for Panama (World Bank, 1999), Honduras (World Bank, 1999), Guatemala (World Bank, 1995), and Nicaragua (World Bank, 1995). These data have been analyzed in the World Bank’s Poverty Assessment Studies and normative implications derived in the Poverty Reduction Strategy Papers. Data for Mexico include the ejido surveys (1994 and 1997; see de Janvry and Sadoulet, 2001b) and the Progresa surveys (biannual between 1998 and 2000). A review of results of the determinants of poverty in these studies shows the following role for productive assets and household characteristics on the probability of being in poverty (with the associated signs when significative):

### HOUSEHOLD ASSET POSITIONS

#### Natural capital
- Land (-) (Mexican ejido, Panama)
- Irrigation (-) (Mexican ejido)
- Number of animals (-) (Mexican ejido)

#### Human capital
- Age of the household head (-) (Mexican ejido, Honduras)
- Number of adults in the household (-) (Mexican ejido)
- Female headed household (+) (Honduras. Not in Mexican ejido)
- Education (-) (Panama, Honduras, Mexican ejido, Guatemala)

#### Social capital
- US migration assets (-) (Mexican ejido, Honduras)
- Indigenous household (+) (Panama, Guatemala)

### HOUSEHOLD CHARACTERISTICS
- Family size (+) (Honduras, Panama, Guatemala)
- Number of children below 10 years of age (+) (Honduras)
- Number of elders above 60 years of age (+) (Honduras)

Analysis of the determinants of poverty in the Progresa communities in Mexico also shows the relative roles of assets and household characteristics. The poor have less land, particularly irrigated land. Using direct
income transfers to give a monetary value to the contribution of the asset variables shows that one-hectare of irrigated land contributes 1,898 pesos to household income relative to a mean income of 1,218 pesos. One hectare of rainfed land only contributes one-fifth that amount (399 pesos). Human capital is enormously important. Successively higher levels of education decrease the likelihood of poverty in a non-linear fashion. The monetary contribution of one adult, male or female, with higher education is far larger (11,531 pesos for males and 8,116 pesos for females) than the monetary contribution of one hectare of irrigated land. Among social capital variables, ethnicity of both the household head and his spouse greatly increase the likelihood of being in poverty. Decomposing welfare inequality across households by source shows that natural capital explains 6.3%, social capital 6.7%, and human capital 13% of total inequality. These results stress the fact that, even in poor agrarian communities like the ones where Progresa operates, the human capital endowment of households is a crucial factor in escaping poverty.

Among household characteristics, households with a younger head, more children below the age of 14, or more children over 15 years old who are at school, are also more likely to be in poverty. However, and somewhat contrary to conventional wisdom (but like in the ejido), the gender of the household head makes no difference to poverty status.

**Heterogeneous asset endowments create a multiplicity of paths out of poverty.** Since rural households derive income from a variety of assets in a variety of income generating activities, we can analyze which households are in poverty according to their asset portfolios and which asset combinations help them escape poverty. The objective of the analysis is to show that there exists a multiplicity of paths out of poverty, and that households that do not control minimum thresholds in asset endowments are caught in poverty traps. For these households, there are three key assets to escape poverty: land (measured in rainfed equivalent hectares), human capital (measured in uneducated equivalent adults, with education weighted relative to the number of adults using the coefficients estimated in an income equation), and US migration capital (the number of individuals in their extended families who have had a migration experience). On average, the probability of observing a household in poverty is 50% (by definition of the poverty line). We can identify the asset positions that give a household less than a 50% chance of being in poverty. We define low endowments as land and human capital positions which are below the median household endowment (10 ha of rainfed-equivalent land and 15 uneducated adult-equivalent) and migration assets that are zero.
Households with low human capital and no migration assets need a minimum of 25 hectares of rainfed land to escape poverty. By contrast, for households with either human capital or migration assets, 6 hectares are sufficient. For households with both human capital and migration asset endowments, only 2 hectares suffice. Households in poverty are hence those with no other assets and less than 25 hectares of land, those with one other asset and less than 6 hectares of land, and those with both other assets and less than 2 hectares of land. With no other assets, escaping from poverty would require a farm size that is in the top 15% of household endowments in the ejido sector. Clearly, a pure “agricultural path out of poverty” would be highly demanding in land transfers under the current conditions of land use. This explains why few households depend exclusively on land for their income strategies. On the other hand, if farmers were facing more attractive price conditions and had access to institutions supportive of productivity gains (credit, insurance, technical assistance), the land threshold could be lowered, making it a more effective path out of poverty.

Similar analyses can be conducted for different combinations of asset endowments. Households with below median land ownership need 20 units of human capital to escape poverty compared to 14 for those with one asset, and only 4 for those with both other assets. Households in poverty are thus those with no other assets and the equivalent of less than 20 uneducated adults, one asset and less than 14 units of human capital, and both land and migration asset endowments but less than 4 units of human capital.

Migration asset endowments help households escape poverty according to their endowments in land and human capital. Households with no other assets need 3 units of migration assets. Those with one other asset need between 1 and 1.5 units of migration assets. Households with both land and human capital endowments above the median never need to rely on migration capital to escape poverty.

We thus conclude that there are multiple paths out of poverty. The agricultural path is highly demanding in land if not accompanied by other assets. However, households can also escape poverty through endowments in human capital and migration assets. There can thus be effective paths out of poverty following a “pluriactive path” made possible by human capital endowments and remittances received from those who left the household completely or seasonally. As households accumulate more than one asset, their likelihood of escaping from poverty rises rapidly.

**Asset ownership is a determinant of choice of income strategies**
A surprising observation in characterizing the nature of rural poverty in the region is the tremendous importance of off-farm sources of income...
for the landed households. Most rural households, even the non-poor with significant land endowments, are pursuing pluriactive income strategies. In Mexico, nearly 80% of rural households derive more than half their income off-farm. In Nicaragua, the 40% households with lower land endowments derive more than half of their incomes off-farm. Hence, any strategy that focuses on poverty reduction will need to stress the pluriactive character of households in the region and enhance the capacity of these households to derive income from their off-farm activities.

When households are pluriactive, specific members tend to specialize in one activity or another according to their own asset endowments and the asset endowments of the household to which they belong. These activities typically include agricultural wage labor, construction work, non-agricultural wage labor in manufacturing and services, self-employment, and seasonal migration. Among these sources of income, agricultural wage labor and construction work are low wage opportunities, offering low potential for helping the household escape poverty. Wage labor in manufacturing and services and seasonal migration to the United States are the highest paid opportunities. It is the opportunity and ability to participate in these activities that offers effective strategies out of poverty. Self-employment varies greatly, with both low productivity and high-income activities.

For the Mexican ejido, studies show the tremendous importance of secondary education in accessing wage labor in manufacturing and services, and self-employment. Indigenous households have less access to remunerative employment opportunities and rely more on self-employment. This is because they have much lower levels of education, but remains true even after controlling for the role of education. By gender and age categories, it is males 35 years and older who have the best access to remunerative off-farm employment. Females, by contrast, tend to be less well positioned than the head of the household in all off-farm activities.

Finally, there are important locational determinants of access to off-farm incomes. Most striking is the lack of wage labor and migration opportunities for households in the South. This shows the considerable importance of providing them with access to land to escape poverty under current conditions and of creating more access to local employment, both in agriculture and in more remunerative opportunities.

A study of access to non-agricultural wage income for rural households in Honduras (World Bank, 1999) similarly reveals the importance of secondary education. Regarding locational advantages, this study shows that the urbanization rate of a department is a supply-side determinant of participation in remunerative off-farm employment.
Pluriactivity in rural households is fundamental for escaping poverty. Success in this path depends, on the demand side, on reaching secondary levels of education. On the supply side, results show the role of the regional context in providing employment opportunities. On both scores, indigenous households are disfavored, as they have lower levels of education and are concentrated in the South of the country, in addition to gaining less access to remunerative off-farm employment, after controlling for the roles of education and regional context.

**High vulnerability requires costly risk-management.**
The rural poor have both high exposure to shocks and high levels of risk aversion. Provision of local safety nets is thus important to their welfare, and to avoid irreversible acts such as pulling children out of school and distress sales of productive assets (Blauch and Hoddinott, 2000). The ability to protect consumption in the presence of shocks depends on access to risk-coping mechanisms: membership in collateralizable transfer programs (e.g., Progresa and Procampo in Mexico), guaranteed employment schemes, access to flexible credit, and mutual insurance networks.

When risk-coping instruments are not available, poor rural households need to protect consumption by engaging in risk management. This implies choosing activities with low expected returns and low levels of risk. Investment in productive assets is in particular distorted toward lower productivity but more liquid assets, typically animals. The consequence is that their assets have low income-generating capacity. This creates the paradox of high rates of savings among poor rural households, yet low investment in remunerative activities.

**High inequality in asset ownership and incomes are an obstacle to rural development.**
It is well known that high levels of inequality reduce the impact of aggregate income growth on poverty reduction (see Ravallion (1997) and de Janvry and Sadoulet (2001a)). Inequality also contributes to poverty at the local level. Results from the Progresa data show that welfare inequality in a municipality increases the incidence of poverty. There are several channels through which inequality can contribute to the incidence of poverty in the community.

The quality of local governance for poverty reduction is affected by participation of the poor (see Faguet (1997) for Bolivia). This in turn depends on the local level of inequality, with higher levels exposing local governments to capture by the non-poor, thus decreasing the capacity of regional growth to reduce poverty.
Inequality also affects poverty by excluding the poor from access to land and consequently putting extreme pressure on land in areas of peasant concentration. Poorly functioning land rental markets prevent relief of this pressure. This is the case in most of the region, resulting in soil erosion, deforestation, and close links between poverty and environmental degradation (Scherr, 2000).

Effective alternative conflict resolution mechanisms, which are important to sustain contracts, for example for land rental, tend to be confined to equals. High levels of inequality thus reduce the possibility of cross-class conflict resolution, contributing to segmentation of transactions.

Finally, high levels of inequality in access to land is an important factor in landlessness, one of the major determinants of poverty among rural households with low education, and in regions with low supply of non-agricultural employment opportunities.

Context where the assets are used: determinants of productivity

At a given level of control over assets, low productivity in asset use is also a determinant of rural poverty. The context for asset use is characterized by policy, market failures, institutional gaps, the supply and access to public goods, the geographical supply of investment and employment opportunities, and harmonious social relations (peace, rule of law, and conflict resolution mechanisms). We list here only the most important aspects in each of these categories.

Role of policy

As practically every study of poverty has shown, aggregate economic growth is one of the main forces in poverty reduction (see for example the World Development Report 1990 (World Bank, 1991) and Dollar and Kraay (2000)). Analysis of the determinants of poverty in Latin America shows, however, that the quantum impact of growth on poverty depends on the quality of growth, namely growth that occurs in a context of low inequality and high incidence of secondary education (de Janvry and Sadoulet, 2001a; Thomas, 2000). Hence, a policy framework that stimulates growth is essential, and the region has been relatively successful at that since recovery from the peso crisis, but the poverty pay-off derived from growth requires complementary interventions to improve equity and increase access to secondary education. What is clear is that regional development and rural development are powerless to compensate for an adverse macroeconomic framework.
For rural poverty reduction, agricultural growth is essential, both directly by generating income for agricultural producers and also indirectly through production and expenditure linkages that contribute to aggregate income growth in the region. Regional growth requires a growth engine. For some regions of Mexico and Central America, this can be tourism and decentralized industry. For most regions, especially Central America, it has to be agriculture. Linkages with agriculture create demand for non-tradable inputs and services. In regions where land is more equally distributed, the strength of these linkages is greater as there is more demand for locally produced goods and services. The more unequally distributed land is, the more production and expenditure linkages are exported outside the region.

Decentralization in the production of tradables toward secondary towns (maquilas) is fundamental to broaden the economic base of the region. To maximize the regional growth effects, the linkages created by maquilas should be internalized in the region. This requires emergence of a sector of local suppliers of the inputs required by maquilas. This approach to regional development has been successful in Taiwan. Regional policies to internalize the backward linkage effects of maquilas should be an integral part of regional planning.

**Role of market failures and institutional gaps**

Access to credit is constrained by wealth, excluding the rural poor. For them, access to credit needs to be dissociated from physical collateral ownership. Alternative financial institutions that rely on social collateral or on types of assets that cannot be used by commercial banks offer solutions to this dilemma.

**Role of public goods**

Property rights: insecurity deters the land rental market.

Access to public extension and technical assistance: Alianza para el Campo.

Rural infrastructure: ejidos connected by paved roads have a lower incidence of poverty. In the Progresa communities, village infrastructure (communities connected by federal or state roads) reduces the incidence of poverty.

Technological innovations for smallholders: a majority of smallholders in the region have not benefited from technological change (CIMMYT): from a food staples approach to farming systems and high value added crops (coffee, non-traditional exports).
Role of regional context and neighborhood effects [results from empirical analyses]

Analyses of the LSMS data for the region show the important role of the regional context in determining poverty levels. Results show the following locational effects on the probability of being in poverty:

- Remote areas (+) (Panama)
- Center and South (+) (Mexican ejido relative to North)

Results from the Progresa data show the great importance of contextual characteristics on poverty outcomes. Village effects on poverty include employment and investment opportunities. This is represented by the average level of wages for males and females, the quality of infrastructure (whether the village is located on a federal/state road or not), and the general level of wealth measured by the frequency of car ownership per household. Municipal effects are measured by availability of employment opportunities in different sectors of economic activity, represented by the employment structure in the municipality. The data show that municipalities with a higher share of employment in non-agricultural work and business ownership have a lower incidence of poverty. Ejido communities have only slightly less poverty than communities of agricultural workers. Finally, states also offer different levels of regional opportunities. Relative to Michoacan, the states of Veracruz, Puebla, San Luis Potosi, Queretaro, and Hidalgo offer increasingly less opportunities to avoid poverty.

With the Progresa results, we can break down the relative roles of household characteristics, asset positions, and geographical context to explain the probability of being in poverty in the Progresa communities. The relative importance of these determinants of income is:

- Role of individual household characteristics (gender of head, age of head, number of children under 14, number of students): 64%
- Role of assets (natural capital, human capital, and social capital): 26%
- Role of context (village, municipality, and state): 10%

Individual household characteristics are largely not policy instruments. Assets and context are the two policy instruments for rural poverty reduction, at least in the short and medium term. The relative roles of these two complementary instruments are:

- Access to assets (economic inclusion): 72%
- Regional context (regional development): 28%
We conclude that location is a fundamental determinant of poverty, as it affects the value of a household’s asset endowment in generating income. For this reason, focusing on regional development to generate more local opportunities should be a cornerstone of any strategy to reduce poverty through rural development initiatives.

Role of peace and conflict resolution
- Recent conflicts in Central America and lags in implementation of the Peace Accords.
- Lack of access to land and poverty as continuing sources of conflict and latent violence.
- Lack of reliable and expeditious conflict resolution mechanisms.

Transfers and welfare

Provision of basic needs continues to be biased against the rural sector
Education, health care, safe water, sewage disposal, electricity are less available in rural than urban areas.

Direct transfers and income multipliers
Cash transfers to ejidatarios through Procampo create an income multiplier of two (namely every peso transferred to ejidatarios is put to work by recipients and generates another peso of income, principally through the purchase of fertilizers and animals), revealing both the strong benefits created by these transfers and the strong liquidity constraint under which ejido households operate (Sadoulet, de Janvry, and Davis, 2001). This result shows the tremendous importance of reconstructing a financial market order for rural areas. The deep financial market failures that continue to exist require use of mechanisms that are clearly not ideal to finance current expenditures and investments. An example is given by the Alianza para el Campo program in Mexico where public funds match 60% of the cost of private expenditures and investments. While necessary in the absence of a financial market order, this “reverse sharecropping” induces substitution of labor by capital, eventually leads to excessive investments by beneficiaries, and diverts scarce public funds away from much needed investment in public goods.

Safety nets and vulnerability: important to distinguish three types of safety nets
Safety nets for chronic poverty (e.g., food ration programs, social security) and public pensions (in Brazil) create positive externalities for other household members.
Safety nets for shocks: social funds provide risk-coping instruments to households. To be effective, these programs need be in place ex-ante relative to shocks to thus provide insurance and to be immediately effective when shocks occur.

Safety nets for economic transitions (e.g., trade liberalization like Procampo for NAFTA): these programs should not only shelter affected households during policy transitions, but also help them adjust to the new economic order. To achieve this, these transfer programs should be complemented by technical assistance programs assisting reconversion and modernization.

Conclusion

Empirical analysis of the determinants of rural poverty gives strong evidence of the existence of two fundamental mechanisms:

One is low access to assets. Most important among those are access to land (especially irrigated land), education (especially secondary education to gain access to non-agricultural sources of employment), and social capital (ethnicity that lowers education and confines people to unfavorable regions, in addition to having a direct negative effect on employment in non-agricultural activities and on success in migrating). Particular households hold particular combinations of assets that allow them to pursue specific income-generating strategies. For the rural poor, these are almost always of the pluriactive type.

The other mechanism is the low availability of employment and investment opportunities in the particular region where a household is located. A favorable regional context enhances the productivity of the assets controlled by the rural poor. Most important are the level of wages, the general level of wealth in the community, and the structure of employment in the municipality, with particularly high opportunities in non-agricultural and business activities. A lower level of inequality in the municipality also helps reduce the likelihood of being poor. The importance of context stresses the need to focus on taking on a territorial approach to rural development in order to improve the opportunities available to households to give income value to the assets they control.

These two conclusions open the door to a normative analysis of poverty that will focus on:

1. Regional development as a precondition for successful rural development.

2. Rural development to increase control over productive assets by the
rural poor, and thus secure economic inclusion, particularly in the perspective of pluriactivity.

**Toward a “new” approach for rural development**

This characterization of the macro and microeconomics of rural poverty in the region gives the basis for understanding the logic of different types of poverty reduction strategies. The Latin American region has witnessed a considerable number of initiatives that have been analyzed in other publications (see for example Schejtman (1999); de Janvry and Sadoulet (2000)). We extract here a number of lessons from these experiences to characterize the main dimensions of the “new” approach to rural development in the region that has been gradually emerging during the last decade. We contrast how these approaches focus on two types of interventions: improvement of the context where productive assets are used, and increased access to productive assets and economic inclusion for the rural poor.

**Context: determinants of the productivity of asset use**

**Coordination between macro/sectoral policies and rural development policies**

Rural development initiatives are often directly contradicted by national and sectoral policies. This is the case, for example, when exchange rate policies shift the relative profitability of tradable and non-tradable sectors without considering the sectors where the rural poor are producing or are employed. This is also the case when trade liberalization policies do not consider adjustment costs for productive sectors in agriculture. Implementation of stabilization policies continues to maintain interest rates at levels often incompatible with the financial needs of agriculture. Any serious attempt at attacking rural poverty must consequently beware of the consistency between macro and sectoral policy-making and the impact these policies will have on the rural poor. All too often, rural development initiatives have had tried to compensate for unfavorable macro and sectoral policies. This is clearly a self-defeating proposition. Rural development cannot succeed without favorable macro and sectoral policies.

To remedy potential contradictions, and seek instead win-win options where macro and sectoral policies will help reduce rural poverty, or devise compensatory policies (such as Procampo for NAFTA in Mexico), an Inter-Ministerial Working Group for Rural Development needs be instituted (as in Canada). In addition, any important macro and sectoral policy reform should be accompanied by a mandatory assessment of im-
Impact on rural poverty. The Canadian concepts of “rural lens” and “rural dialogue” whereby federal departments and agencies are required to scrutinize the implications on rural areas of their policies and programs, and to discuss them with representatives of rural regions, should be generalized (see www.rural.gc.ca/lens_e.html).

Importance of regional development as a pre-condition for rural development.

Rural development (aimed at poverty reduction) cannot be effective without dynamic growth in the region to create employment and investment opportunities for the rural poor. Hence, successful regional development is a precondition for successful rural development. This requires reorganizing the planning and management of development at the regional level. Regions need to be defined as economic entities that may differ from administrative regions, usually agglomerating municipalities with similar economic advantages. In most of Latin America, decentralization has been at the municipal level. While this level is effective for a demand-led approach to the allocation of public expenditures for welfare and small projects, it is a unit of governance that is too small for significant economic projects. As a consequence, many countries have taken initiatives to introduce coordinating and disbursement mechanisms at the regional level. This is the case, for instance, of the Regional Development Councils in Mexico (World Bank, 2000). These councils should include deconcentrated national agencies, local governments, the private sector in the region, voluntary organizations, and grassroots organizations. They should engage in annual exercises aimed at developing comprehensive development frameworks (CDF) for the region. Development of these plans will require semi-public regional development institutes staffed with experts in regional planning. These indicative regional plans should contain an explicit strategy for regional growth, seeking integration of sectoral policies at the level of the region, and complementarities between public and private investment. In these plans, public investments should serve as a magnet for attracting private investment in the region. Local public goods will frequently be co-financed by national funds, local fiscal revenues, and voluntary contributions. Regional CDFs should contain an explicit poverty reduction strategy that outlines the regional approach to rural development. The objective of rural development is to make the poor in the region share in the benefits of regional development. Other institutional solutions to Regional Development Councils include Watershed Councils and non-governmental regional public agencies such as Plan Sierra in the Dominican Republic, with the legal status of NGO, and flexible coalitions of municipalities for the management of trans-municipal programs.
Successful regional development requires an **engine of growth**. This implies identifying the regional comparative advantages in attracting private investment. In most cases, this will be agriculture, particularly for the poorest regions of Southern Mexico and Central America. Hence, the promotion of agricultural growth should be a top priority to support rural development, particularly high value added crops produced for agroindustry, non-traditional exports, and labeled quality products for niche markets. In some areas, such as the Yucatan, Oaxaca, Guatemala, and Costa Rica, tourism is also an important regional engine of growth, with potential important regional linkages to agriculture. The decentralization of manufacturing activity toward rural areas can also be important, for instance maquilas in the Yucatan and most Central American countries. In all cases, the linkages with the dynamic sectors can be important sources of non-agricultural employment through the expenditure of income from these activities on non-tradable goods (e.g. construction) and services.

A regional approach to rural development is a **territorial** approach as opposed to a sectoral one. This is important since, as we have seen, pluriactivity is an important road out of rural poverty. To promote pluriactivity, supporting the incomes of the rural poor must integrate support for the multiplicity of activities in which they are engaged at the regional level. This requires integration at the regional level of deconcentrated public services in support of rural development.

There are clearly new opportunities to engage in a territorial approach to rural development and natural resource management (Mohar, 2001). They include:

- Increasing concern and need for environmental management.
- Increasing role of municipalities in management of their territories.
- Increasing concern and recognition of indigenous territorial rights.
- Increasing demands for agricultural products of regional origin (specialty/quality products).
- Increasing potential to customize technology regionally through precision farming, production, ecology, and biotechnology.
- Increasing possibility of sale of environmental services under community contracts.

The private sector is an important actor in regional development, and success in attracting private investment is a measure of success in regional development. Business assistance and shared equity programs can be part of
promotional activities. This also implies that the delivery of agricultural services will be increasingly in the hands of private suppliers. Indeed there has been a rapid multiplication of private groups delivering agricultural services, replacing services formerly provided by public agencies or NGOs.

Regional management implies increasing integration between rural and urban affairs within the region. The rural-urban dichotomy should thus give way to a continuum, with an important role for intermediary towns. Decentralization of economic activity toward these towns will reduce transactions costs for households in pursuing pluriactive strategies. These towns should in particular be the physical place where linkages with agriculture take place, instead of being exported outside the region.

Decentralization and improvement of local governance
All governments in the region have pursued the decentralization of governance. In Mexico, resources and responsibilities have been transferred to municipalities. Funds for infrastructure development have been allocated to the municipalities (Ramo 33). Results have been uneven and success stories co-exist with failures. Success in poverty reduction has been associated with greater opportunity for participation by the rural poor (see Faguet (1997) for Bolivia; Fox and Aranda (1996) for Mexico). Devolution of management of resources to local communities has been successful where communities have the capacity to cooperate and sustain local governance. In Mexico, local ability to govern after devolution has varied greatly across ejidos. Successful cases have been observed among ejidos that are not too large and where wealth levels are not too heterogeneous. Where cooperation has failed, common property resources have more often been divided among members. Successful decentralization thus requires more than devolution. Enhancing the ability of communities and municipalities to cooperate and govern needs to be an integral component of decentralization and devolution. Communities that could assume traditional governance functions may be unprepared to assume the new functions devolved to them without major changes in their decision-making and enforcement mechanisms. In particular, traditional structures of authority may need to be transformed into more formalized democratic processes. Neglect of this complementary set of interventions has been a major source of failures in decentralization and devolution initiatives.

Municipal decentralization should not be principally seen as an urban program. Municipalities need to assume control over their hinterlands and manage their territories from the perspective of comprehensive resource use and conservation. Delivery of environmental services in particular can be done through contracts with municipalities that can
identify potential services to be offered and manage the enforcement of rules for delivery.

**Construction of a new order for rural institutions**
The poor are selectively affected by extensive market failures (Carter and Barham, 1996). When markets fail, institutional innovations can be sought to make markets work, or to seek to achieve transactions outside markets through contracts and face-to-face agreements. Institutional change can thus serve to decrease transactions costs on markets, reduce market failures, and promote level playing fields for the rural poor.

As the role of the state is downsized following structural adjustment and liberalization, a new institutional order is gradually emerging (Gordillo, 2000). Most prominent among these new institutional constructs are microfinance institutions, co-financed technical assistance services, and service cooperatives to reduce transactions costs on markets. Reconstruction is, however, at best partial and still badly lagging. Today, most smallholders in the region remain without access to credit and technical change, and are not members of organizations that can help reduce transactions costs on markets.

**Public goods**
The main function of public goods investments in support of rural development should be to seek to induce greater private investment in the region. The guiding principle should thus be to seek coordination and complementarities between public and private investment to maximize the multiplier effect of public investment on total investment. Since public investment in rural areas coming from national sources is declining, many of these public goods will be the product of co-investments between national and local funds. This implies that national investments in local public goods should act as menus of options to allow local choice and flexibility in identifying priorities. National priorities can be reflected in different matching schemes according to their desirability in terms of core regional priorities. Inducement from the center can be given in particular to reduce urban, gender, and ethnic biases in the provision of public goods.

**Toward a regional approach to the provision of technology**
Technology is an important source of growth for agriculture. It can also be an effective instrument for poverty reduction. Technology can help reduce regional poverty through both direct and indirect effects. Direct effects are those derived by the adopter of the technology, in this case poor
smallholders. Indirect effects on others are created by those who adopt technology, particularly through: employment creation in agriculture, lowering the local price of food, employment in activities linked to agriculture and to the expenditure of agricultural incomes, and overall growth of the economy. For each region, the planning of investment in technology should thus carefully balance the achievement of direct and indirect effects of technological change on poverty. Since Central American countries are small, many of the benefits of technology cannot be internalized within national boundaries and there is strong under-investment in agricultural research. In addition, following structural adjustment, most countries have decapitalized national agricultural research systems. As a consequence, a regional approach to agricultural research makes eminent sense. This is made possible by similarities in agro-ecological conditions from Puebla to Panama.

Foragro (IICA) has sought to promote a regional approach to agricultural research for the region that coordinates research done by NARS (national agricultural research systems, including public, private, and non-profit organizations) and CGIAR (Consultative Group in International Agricultural Research) centers. To maximize the impact of technology as part of a poverty reduction strategy, the role of technology needs to be explicitly integrated in comprehensive development plans for the region. Demands for technology should emanate from sub-regional development councils in the region, which have the capacity to mobilize information from stakeholders and integrate these demands into regional development plans. These regional research initiatives should be supported by a regional competitive grants research program for research partnerships between public, private, and international research in the region.

**Integrate natural resource management (NRM) in rural development**

Rural development is not successful unless it provides sustainable sources of income. This is particularly the case in Central America and Southern Mexico where the pressure of poverty on the environment has led to serious degradation, reinforcing the determinants of poverty (Scherr, 2000). The region has been characterized by intense deforestation and soil erosion. Environmentally destructive slash-and-burn agriculture is still widely practiced on cycles that accelerate as a consequence of population pressure. NRM must thus be an integral component of rural development practices. This requires broad reconsideration of perverse incentives created by policy distortions, market failures that are compensated by resource extraction, incomplete and non-enforceable property rights that induce over-extraction, public goods deficits that are overcome by extractivist practices,
and lack of technological alternatives to current practices. Hence, the management of natural resources for sustainability requires an integrated approach that spans the economic, the political, and the social.

National and international demands for environmental services provide new opportunities for rural development. Payment for environmental services (soil conservation, water, forests, biodiversity, carbon capture, landscapes) can be an important source of revenue for poor rural inhabitants. New institutional arrangements need to be explored in support of these initiatives. This includes, for instance, self-enforcing contracts with agrarian communities to manage natural resources that create positive externalities and to enforce environmental regulations. In Mexico, the ejido communities would be a natural institutional basis on which to anchor these contracts. Municipalities also need to take charge not only of their urban environment, but also of the whole territory they control (Mohar, 2001). This requires providing them with incentives to engage in territorial management of the resources in the municipality.

**Assets: Determinants of economic incorporation**

**Programs to enhance access to assets**
Creating a regional context for rural development will help reduce poverty only inasmuch as the poor have access to productive assets. This includes human capital to massively elevate the current abysmally low educational levels in rural areas. The Progresa program in Mexico and the Praf program in Honduras are notable for trying to break the vicious circle of inherited poverty among poor rural households.

Access to land is also a fundamental asset for rural households. This can be had through land reform (which is contentious), the distribution of public lands (which are increasingly scarce), market-assisted land reform (which is expensive), reactivation of land rental markets (requiring secure property rights and conflict resolution mechanisms), and individual and community titling (that has been badly lagging). All these actions need to be pursued according to local specificities and opportunities. The most unexplored of these is the role of land rental markets as a mechanism of access to land for the rural poor, both as a source of income and as the first rung on an agricultural ladder that potentially leads to land ownership. Rental contracts have the advantage of potentially serving to overcome many of the market failures and institutional gaps that compromise competitiveness of owner-operator smallholders. They need to be regulated to make them more effective for poverty reduction.
Social capital, collective action, and incorporation
Information about rural development opportunities is local and needs to be revealed through participation. Project ownership is also acquired through participation and influence over the quality of the context for the rural poor comes through collective action. Approaches to the construction of social capital and the promotion of local organizations are thus essential. These organizations for collective action can serve to deliver services to their members, support co-participation in the provision of local public goods, and lobby for their constituencies. They are consequently an essential element of economic incorporation.

Linking the poor to the non-poor
Anti-poverty programs typically attempt to target the poor and exclude the non-poor from sharing in program benefits. This is desirable for welfare programs, but not for approaches that seek to increase the income of the poor through productive activities. In this case, what is important is to de-ghettoize the economic activities of the poor by making them useful to the non-poor (as in the Petrolina irrigation project in Brazil that delivers tropical fruits to Northern markets, see Damiani, 1999), and making the non-poor create positive externalities for the poor (for instance through sub-contracting, joint ventures, and employment opportunities, see CEPAL 1998 and CEPAL 1999). The objective is to create win-win opportunities between regional development and rural development.

Most traditional approaches to rural development have sought to promote self-employment by the rural poor. This has been the case in agriculture, as well as in non-agricultural microenterprises. These are valid initiatives, but the rate of success is inevitably low due to the high mortality rate of new enterprises. Employment creation by the non-poor is easier than self-employment by the poor. Making the labor market work for the rural poor is thus an effective strategy to link regional and rural development. Employment in agriculture is a low-skills, easy-entry option, but also reproduces poverty and hard working conditions. Employment in non-farm activities offers better remuneration, but requires higher levels of education and low-cost access to the labor market. Making the labor market work for rural inhabitants and enhancing participation by the poor to better-remunerated activities can thus be one of the most effective rural development strategies (Lopez and Valdés, 1997). Sharp reduction of rural poverty in the United States during the last eight years has been based on this approach.
Conclusions

We have shown that, besides household demographic characteristics, context and assets are the two main determinants of escaping from poverty. We have seen that the “new” approach to rural development aims at modifying these two determinants, improving the quality of the context where assets are used through regional development to generate local growth, and improving access to assets and collective action for economic inclusion. We consider this an alternative approach to rural poverty reduction.

Roads out of poverty and poverty reduction strategies

Inspection of the dynamics of poverty shows that there are four main roads out of rural poverty:

i) Exit and relocation: Migration has been the main force in reducing the number of rural poor relative to the number of urban poor. While migration has often simply relocated poverty because those who left were not prepared to effectively participate in urban life, it can be helped by education to both enhance migration for those with limited opportunities in rural areas and increase the probability of escaping poverty in the urban sector.

ii) Family farming: This has been the traditional approach for integrated rural development programs. We have seen that the approach can be effective, but that it requires significant land endowments to constitute viable family farms that help households out of poverty, and also to provide these family farmers with conditions for competitiveness. Substantial social engineering is required to reduce market failures, eliminate institutional gaps, deliver public goods complementary to private investment and place agriculture in a favorable policy context.

iii) Pluriactivity: Data show that this is a surprisingly important strategy out of poverty if human capital, social capital and location relative to labor markets and investment opportunities are adequate. Since off-farm activities are highly dual, participation to high-remuneration, non-agricultural employment and self-employment depends largely on the employment and investment opportunities offered by the regional context, and on education to capture these opportunities.

iv) Welfare: Targeted transfer programs can not only be directly effective but also induce multiplier effects if complementary to entrepreneurial activities in the agriculture and pluriactive roads (see the Procampo example, de Janvry and Sadoulet (2001)). They can, however, also create negative
effects on entrepreneurship and on the self-valorization of recipients. For those unable to work, they are evidently the only way out of poverty.

Approaches to rural poverty reduction have basically focused on two alternative and competing strategies that each relies on a selective subset of these roads:

i) **Exit and welfare**: Public expenditures and international lending for rural poverty reduction have focused mainly on human development (education of the next generation, health), safety nets (for chronic poverty, income shocks, and transition periods), and welfare (social security). These programs are easier to manage than programs oriented at income generation as they largely consist in disbursements, without the need to promote entrepreneurial activities for the rural poor. They can effectively be managed as demand-led programs, without concerns for the harder tasks of improved access to productive assets, regional development, and institutional reconstruction for competitiveness. Decentralization at the municipal level and participation of beneficiaries have been effective, with significant pay-offs. For this reason, they have increasingly dominated the lending portfolio of international agencies.

ii) **Agricultural development and pluriactivity**: The objective is to create self-sustaining sources of income for the rural poor, as opposed to welfare transfers. Lending for these activities has fallen sharply. It is our contention that this is because the dynamics of rural poverty and the conditions for competitiveness have not been properly diagnosed. As explained above, the approach requires much soft engineering in addition to hard cash expenditures. It requires national coordination, regional development, institutional reconstruction, increased access to productive assets for the rural poor, and the promotion of organizations for service and representation.

The first conclusion of this paper is consequently the need to reconceptualize rural development from a mitigating public expenditure in support of exit and welfare, to a public investment in the creation of economic opportunities for the rural poor following the options of pluriactivity and competitive family farming.

**Deconstructing rural development**

What is the essence of a new approach to rural development? It should be clear that public investment in rural areas is unlikely to increase. We con-
tend here that rural poverty reduction can be achieved without investing more public resources in rural areas. What is needed are qualitative changes in the way these resources are used, to make them more effective in reducing poverty. Above, we have seen a long menu of initiatives that need to be undertaken. Can we deconstruct the entries in this list to extract the essence of a new road for rural development? If we had to reduce the list to only two propositions, what would we they be? We propose the following:

1. Promote regional development to enhance private investment in the region and to generate local income opportunities.
2. Promote rural development to enhance economic inclusion of the rural poor in the benefits of regional growth through increased access to assets and improved organizations.

Implications for investment by governments and international development agencies

There are three logical steps to start implementing the widely-shared ideas about the new approach to rural development, using the available financial resources in support of this approach:

1. **Organize the approach as a learning process.** This suggests experimenting with pilot projects, designing these pilots for a rigorous impact analysis (as was done with Progresa and Praf), and engaging in participatory evaluation.

2. **Organize the approach on the basis of a national dialogue.** The approach should be anchored in a widely-shared consensus on a new vision for rural space: the “new rurality.” This consensus would provide support for an economic revalorization of rural space.

3. **Organize the continuity of the rural development effort.** The rural development effort needs to be elevated above partisan politics and the discontinuities of presidential cycles and projects supported by foreign assistance. Continuity is essential for success, and all the more if environmental goals are being sought. To do this, rural development must be transformed from a government program to a state policy. This can be done by (1) elevating agreement on the new approach above national politics, in particular by seeking a commitment device to make it part of a geo-political approach for the entire region, along the lines of the Mexico-Central America Program “From Puebla to Panama”; and (2) anchoring the initiatives in community control, for
instance by delegating responsibility to non-government local organizations with democratic participation of stakeholders (such as Plan Sierra in the Dominican Republic).

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CHAPTER 3

The Role of the State in Rural Poverty Reduction

By Azizur Rahman Khan

This paper considers the roles of different stakeholders—government, non-governmental organizations (NGOs), private business and civil society—in the alleviation of rural poverty in developing countries. It focuses on the appropriate combination of effort by these stakeholders and evaluates some contemporary cases of rural poverty reduction.

Section I considers the principal components of a strategy for poverty reduction. Section II analyzes the roles of different stakeholders in some East Asian countries that have achieved the most dramatic alleviation of rural poverty in recent history. Section III identifies the “comparative advantage” of the State and the other stakeholders in the implementation of different components of strategies for rural poverty reduction by comparing successful East Asian cases with less successful contemporary experiences elsewhere.

What Needs to be Done to Alleviate Rural Poverty?

Poverty is typically more widespread in rural societies than in urban ones. World Bank estimates show that for the poverty threshold corresponding to PPP$ 1 per capita per day, 75 per cent of the world’s poor were living in rural areas at the end of the twentieth century. World Bank projections suggest that, despite a rapid increase in the proportion of the world’s population living in urban areas, the proportion of the world’s poor living in rural areas will continue to be 60 per cent or more by the year 2025. Reducing rural poverty must be the dominant focus of the war on world poverty, not only because a large majority of the world’s poor is rural but also because most of the urban poor are migrants trying to escape rural poverty. Dealing with rural poverty is in some sense tackling the problem at its source.

While the profile of the poor varies among countries and regions, it is by now well established that an overwhelming proportion of the rural poor consist of small holder farmers and wage laborers, both in

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1 Dr. Azizur R. Khan is Professor of Economics at the University of California, Riverside
agriculture and rudimentary non-agricultural activities, with a disproportionately high share of female-headed households, disadvantaged castes, ethnic minorities and displaced peoples. For most of these groups the only significant resource endowment consists of the capacity for human labor. In most cases this asset takes the form of the capacity for unskilled labor, with little human capital endowment. A significant proportion of poor households also suffer from inadequate labor endowment due to a combination of few able-bodied adults, large family size and a high dependency ratio.

To overcome poverty the poor need to be able to convert their labor resources into income entitlement. This can be attained by: (a) increasing wage employment; (b) increasing real wages through a rise in labor productivity/labor demand; (c) increasing opportunities for self-employment for poor workers; (d) enabling the poor to improve their productivity in self-employment; and (e) improving the terms of exchange for the output of their self employment. This of course needs to be supplemented by income transfers or other forms of direct assistance for poor households with an inadequate endowment of labor resources. A decline in fertility, leading to a decline in the dependency ratio, also helps overcome poverty.

A development strategy that promotes all the above poverty-alleviating processes has the following principle elements:

1. **Rapid, labor-intensive growth providing the poor with productive and remunerative employment.** This involves the entire gamut of development policies, which is impossible to summarize in this short paper. First, a high rate of growth needs to be assured by the adoption of comprehensive policies encompassing incentives for domestic capital accumulation and attraction of capital from abroad; policies for the effective deployment of investment resources in socially profitable activities; and the creation of appropriate institutions conducive to the pursuit of growth and efficiency. Secondly, growth must be accompanied by an appropriately high output elasticity of employment. The incentive system must promote investment with high labor intensity. For example, it must avoid artificially cheapening capital, which is widespread under the system of import-substituting industrialization. Employment-friendly institutions must replace economic institutions that inhibit the use of labor. For example, in countries with concentrated landownership, e.g., the Philippines and Brazil, the intensity of labor use in agriculture has been low due to the widely-observed phenomenon of the inverse relationship between farm size and labor use per hectare and the practice by which large landowners withhold large tracts of land from cultivation for
speculative purposes, resulting in the restriction of employment and output in agriculture. As a consequence of these distorted policies and institutions, employment and wages have grown too slowly to permit a reduction in poverty that is commensurate with the rate of economic growth under appropriate policies and institutions. A more employment-friendly system of land control is necessary for growth to have a strong poverty-alleviating effect. Growth-induced employment expansion in agriculture and the rural economy has the most direct effect on rural poverty alleviation. But, in the long run, the welfare of the rural poor depends on rapid employment-intensive growth in the entire economy and a gradual transfer of labor from agriculture to non-agricultural activities (and possibly, to a lesser extent, a transfer of rural labor to urban employment).

2 Conversion of the poor into productive entrepreneurs engaged in self-employment. In rural societies of most developing countries the incidence of poverty is often far greater than average for smallholding farmers and self-employed non-farm categories. For these groups, overcoming poverty is often a matter of using household labor more intensively by improving access to productive assets. Redistributing land and/or improving access of the poor to the use of land under favorable rental/tenancy arrangements is a powerful method of improving the income and welfare of the poor. Other methods involve providing credit, infrastructure and public services for non-farm micro enterprise and granting access to education and training that makes the poor more productive as entrepreneurs (see below). Targeted public action is essential to promote the access of the poor to these resources.

3 Increasing the productivity of poor workers in both wage employment and self-employment. The principal policy to enhance the productivity of the poor is to endow them with greater human capital: skill, education and health. Successful targeting of public resources is necessary to offset the inadequate capacity of the poor to make private investment in the acquisition of human capital.

4 Improving the terms of exchange for production by the poor. Improved terms of trade for activities in which the poor are concentrated, both as wageworkers and self-employed micro entrepreneurs, helps alleviate poverty. For this, an improved access to infrastructure, market and services is essential.

5 The above measures should enable poor households with an adequate endowment of labor to progress towards overcoming poverty.
Poor households without an adequate endowment of labor will require more direct assistance in the form of income transfer. The ability of a developing country to mobilize resources for income transfer is limited. Special measures will also be needed for labor-disadvantaged households, e.g., female-headed and female-labor-intensive households that cannot compete for the usual kind of employment in the market place.

While the determinants of the decline in fertility are not easily tractable, it appears that they are closely related to increased education, better health, declining infant mortality and, in general, to the poverty reduction policies outlined above. The process is helped by the easy access of the poor to means of contraception.

The Role of the State in Rural Poverty Alleviation in Some East Asian Countries

East Asian countries such as the Republic of Korea and Taiwan are among the most successful contemporary cases of rural poverty alleviation. In many ways, these cases are similar to the experience of Japan in an earlier period. By and large, they implemented a strategy that included at least the first four of the elements identified above.

They began by implementing highly egalitarian land reforms which drastically brought down the upper limit of landownership, substantially expropriating the large landowners and redistributing land among the landless and smallholders. This was supplemented by a number of complementary measures to support the development of agriculture and rural economic activities: government-funded research in improved technology; access to credit; improved infrastructure; and improved terms of trade for agriculture. The overall development strategy succeeded in promoting rapid economic growth, which was highly employment-friendly. This was brought about by a system of direct promotion of worthwhile industries; public investment in the development of infrastructure; the creation of an incentive system that induced a high rate of saving and the direction of investment to socially-profitable industries; and sound macroeconomic policies. Labor market policies facilitated a rapid change in the composition of employment by allowing a transfer of workers from agriculture to non-agricultural occupations with a low difference in wage rates between the two sectors. This was helped by avoiding direct interventions in the labor market that artificially create a large difference between urban and rural wages and prevent the transfer of labor from agriculture to secondary and tertiary activities by restrictive employment practices in the latter.
As a result, non-farm employment increased rapidly, bringing about a quick reduction in the share of agriculture in total employment. Large public investment in education quickly resulted in universal literacy and a sharp increase in the efficiency of the labor force. Rapid increase in employment, accompanied by a rise in real wages at about the same rate as the rise in per capita income, was instrumental in promoting equality in the distribution of income and sharply reducing the incidence of poverty both in rural and urban areas. A quick demographic transition further helped the process.

Following is a brief look at the role of the State in the implementation of the different components of the strategy for rural development and poverty alleviation, highlighting the main differences between these countries and the rest of the developing world.

Land Reform

The critical element that distinguishes the experience of these countries (and of Japan and a few other East Asian countries to be mentioned below) from that of the rest of the developing world was the implementation of comprehensive land reform that transformed the very unequal distribution of landownership into highly egalitarian peasant ownership, with universal access to land. This provided the initial impetus for egalitarian growth of the rural economy and also created a basis for subsequent growth of the economy by expanding the size of the market, by enhancing both the ability and the incentive of the farmers to save and invest at high rates, and by promoting a steady increase in productivity that enabled a part of the rural labor force to be released for employment in the fast-growing industries and services. The features of the East Asian land reforms and the principal determinants of their success may be summarized as follows:

1. Each of these countries suffered from extreme scarcity of land, which is often cited elsewhere as the reason for land reform being unfeasible due to the small redistributable surplus of land. These countries recognized that unequal entitlement to such a scarce factor was especially detrimental to the promotion of equality and the alleviation of poverty because of its large share in an unregulated market. Thus, they viewed the scarcity of land as an argument for removing, rather than perpetuating, its unequal distribution. They adopted a low ceiling on land ownership. The highest permissible ownership unit was less than 2.5 times the average land per household.
Redistribution was greatly eased by the “windfall” received by the State, which took ownership over as much as 20 per cent of total cultivable land abandoned by the former Japanese owners. This created a very strong basis for an initial redistribution of land before resorting to compulsory land acquisition from private landlords. Another “windfall” that eased the resource burden of financing land reform was State ownership of the industrial enterprises left behind by the former Japanese owners, whose stocks paid for 30 per cent of the compensation paid to the landlords in Taiwan. In Korea, this was also used to contribute to compensation paid to landlords.

In spite of these two extraordinary bonuses, together amounting to a very high proportion of the value of total redistribution, land reforms in these countries were not market-driven. There was substantial confiscation insofar as the landlords were given only 2.5 times the value of annual output of land in Taiwan and between 1.5 and 1.8 times the value of output in Korea. Reliable information on the market price of land is not available—and land prices had already been brought down in Taiwan by the successful reform of the land rent system—but it is a fair guess that confiscation represented at least two-thirds of the land value that the landlords would have received if reforms had been entirely market driven.

The implementation of such a confiscatory redistribution of land required a great deal of political will, the lack of which is often cited as the principal obstacle to land reforms elsewhere. In each of the cases under review, the impetus for land reforms came from a government that was independent of vested interests, including those of the landlords. Taiwan was ruled by the occupying Guomindang, which had no association with the landed aristocracy or any commitment to it. Furthermore, having just been defeated by the communists on the mainland, they had learned the lesson that it was very important to create broad-based support among the population by redistributive measures like land reforms. In Korea, the U.S. Army Military Government in Korea (USAMGIK) spearheaded the reform, which was completely autonomous of the landed aristocracy. The threat from the north was probably an additional impetus on the part of the Korean government, which started exercising its authority in 1948. These special circumstances explain why there was no shortage of political will to implement reforms that hurt the landlords.
In both cases tenancy reforms were implemented as a prelude to land redistribution. The result of tenancy reforms was very different in the two countries. In Taiwan, these reforms were apparently successful. They led to a reduction in land rent and land value, which helped the acquisition of land at low prices. In Korea, these reforms were not successful. They led to perverse outcomes detrimental to the tenants. The difference appears to have been due to the presence of grassroots organization in Taiwan and their absence in Korea.

Successful implementation of measures that involved administrative acquisition and allocation of assets below market prices, avoiding overt corruption and bribery, was possible because the government was able to make use of the fact that rural areas were extensively organized. In Korea, the lack of organization during the phase of tenancy reform under the auspices of the USAMGJK, which had very limited jurisdiction over the rural society, was remedied by the creation of an extensive network of tripartite land committees.

In the case of Korea, there is clear documentation that a special feature of the pre-reform rural society—namely, the highly egalitarian distribution of operational holdings of land—greatly helped the implementation of land redistribution. The process essentially represented a transfer of land title from the (predominantly non-cultivating) landlords to the actual (tenant) farm operators. There is some reason to believe that this was also the case in Taiwan and Japan. In all the East Asian cases of redistribution the process was relatively free of social turmoil. Real farmers were not displaced and the management of land and farms continued to be carried out by experienced farmers whose incentives were boosted by acquiring land ownership. This East Asian feature of land rented out to tenants in equal parcels is absent in pre-reform agrarian societies elsewhere, e.g., South Asia. A full explanation of this phenomenon must be sought in the social, political and economic history of the region. However, it seems likely that agro-climatic factors played an important part. Dependable rainfall and extreme land scarcity made animal labor relatively unimportant in East Asian agriculture. This made households without an endowment of draught animals eligible for tenancy, resulting in a highly egalitarian distribution of tenanted land. This peculiar feature of East Asian agriculture appears to have been yet another special factor smoothing the process of land reform.
China and Vietnam also expropriated the landlords after a revolutionary overthrow of the feudal agrarian system. Initially, land was redistributed among the farm households to create a system of egalitarian peasant farming. This was, however, quickly abolished in favor of the collectivization of agriculture. After decades of unsuccessful struggle to create efficient agriculture under collective institutions, these countries reinstated egalitarian distribution of land among individual households to recreate the system of peasant farming. The final outcome of the Chinese and Vietnamese experience appears to be remarkably similar to the Taiwanese and Korean experience in so far as both paths ended up creating egalitarian private peasant agriculture. In Taiwan and Korea, the financial cost of land transfer was kept manageable by a combination of the windfall of land and assets left by the former Japanese owners and the severely depressed, confiscatory price imposed on the landlords. In the Chinese and Vietnamese case, the financial cost of land transfer was eliminated by outright expropriation of the landlords. The political will for such a radical overturn was provided by the occupying army in the former case and the revolutionary overthrow of feudalism in the latter.

The big difference between the two models is that China and Vietnam interrupted their initial land reform with a long detour along the collectivist path before returning to individual peasant farming. In retrospect, it is clear that this detour was wasteful. By all indications these countries would have avoided long periods of slow growth, persistent poverty and periodic plunges into disasters by staying with their initial land reforms and complementing the development of egalitarian peasant farming by appropriate systems of incentives and access to services and inputs. Experience has also disproved the fear expressed by socialist visionaries like Mao that post-reform private agriculture would lead to polarization and low productivity.

It must be recognized, however, that peasant farming could not succeed within the overall framework of central planning that these countries adopted. Irrational prices, bureaucratic control over distribution of inputs and services and arbitrary procurement policies that characterized economic planning in these countries were incompatible with the development of individual farming based of egalitarian peasant ownership. Rejecting land reform in favor of collective agriculture was not an incoherent action. By the same token, individual peasant farming could be the successful vehicle for development only if these countries were able to design a market-friendly, decentralized economy.

The return to egalitarian peasant farming in China saw a period of extremely rapid reduction in rural poverty. The rate of reduction in rural pov-
Property slowed down in the second half of the 1980s, when complementary rural development policies—e.g., improved terms of trade for agriculture, a high rate of investment in agriculture and public investment in rural education—were weakened or reversed. In Vietnam, complementary policies are yet to be put fully in place although the benefits of land reform are already clearly reflected in the performance of the rural economy.

Complementary Policies to Enhance the Productivity and Income of the Rural Poor

In the successful East Asian cases, land reform was supplemented by additional measures to improve the productivity of the poor and to improve the terms of exchange for production by the poor. To make the most of access to land, access to complementary factors is also necessary: credit, technology and inputs. The role of the state in the successful East Asian countries is illustrated by the experience of Taiwan in these areas, for which documentation is readily available. Prior to land reform, farmers’ associations and credit co-operatives in Taiwan were dominated by landlords and non-farmers for the primary purpose of providing extension service and procuring rice. In 1952, the government restructured them by consolidating them into multipurpose farmers’ associations restricted to serving the needs of the farmers and ensuring the farmers’ control over them. Their activities were expanded to include accepting savings deposits, advancing credit, providing facilities for purchasing inputs and marketing, and storing and processing agricultural output. While the government was instrumental in shaping the institutional structure, it avoided involvement in the operation of these associations, which were autonomous cooperatives controlled by the farmers.

The government also provided resources to agricultural research agencies. The emphasis was on biological-chemical technology, which increases employment, rather than on mechanical technology, which tends to replace labor.

Agricultural price policy was used both as a way to modestly tax agriculture, which had to contribute to the nation’s capital formation because of its overwhelming size at the time, and to encourage a shift in cropping patterns away from rice and in favor of higher-value crops, e.g., sugarcane, corn, mushrooms and asparagus. The government intervened broadly in the market by taxing land in kind, implementing a rice-fertilizer barter system, and guaranteeing prices to induce a shift in cropping patterns toward more intensive use of land and increased days of employment per worker.
Two other components of the strategy that contributed improving the welfare of the rural poor were their increased endowment of human capital and improved access to infrastructure. The State made very substantial investment in both these areas. The State was instrumental in providing universal primary education, ensuring adult literacy and creating a basic health care system very early in the development process. It also made large-scale investment in the development of infrastructure, particularly transportation and power supply.

Policies were broadly similar in Korea and in China in the early years of reform following the return to egalitarian peasant farming.

**Broader Development Policies for Rapid Labor-Intensive Growth**

The welfare of the rural poor cannot be improved without developing the urban and non-agricultural sectors. Coordinated development of the entire economy is a precondition for the development of the rural economy and the elimination of rural poverty. A rapid transfer of labor from agriculture to non-agricultural activities characterizes successful poverty-reducing growth. Thus a development strategy leading to rapid overall economic growth is essential to strategies for alleviating rural poverty.

The experience of Korea and Taiwan in fostering such a strategy is by now very well documented. While adhering to a strategy that promoted growth and avoided gross distortions in the allocation of resources (e.g., discrimination against exports in favor of import replacement and against labor-intensive techniques in favor of capital-intensive techniques), the state by no means opted for laissez-faire. Economic growth was not the passive result of free market forces and the global economy. It was nurtured by the entrepreneurial umbrella of the State, which made sensible interventions by identifying socially profitable industries and setting up detailed mechanisms for directing resources to those industries. Furthermore, it made large-scale investment in the development of infrastructure, education and health services.

However, the governments of these East Asian countries did not perform certain functions commonly taken on by the State in other developing countries. The most important of these was the avoidance of ownership of productive enterprises in agriculture and industries, which was left to the private sector. By and large the State also avoided direct involvement in the marketing and delivery of products and services. While elsewhere in the developing world inputs for agriculture were often directly distributed and controlled by the State, in East Asia these were left to private business and cooperatives operating in a market environment. As
noted above, they also avoided direct interventions to regulate wage rates and conditions of employment.

The extent of redistributive measures, e.g., income transfer directed to the poor, was generally de-emphasized. While rapid growth in employment and real wages reduced the need for this instrument, it has been argued that the governments of these countries did not make a timely transition towards a system of social protection even after they attained a relatively high level of development. As a consequence, the argument goes on, these countries did not have a system of protection for those who were temporarily driven into poverty by the crisis that hit them in 1997.

**Lessons About Appropriate Roles for the State and Other Stakeholders in Rural Poverty Alleviation**

Contemporary debate on development policy centers around opposing views on the kind of role that is attributed to the East Asian State in the preceding section. There is a view, often advocated by the major international development agencies, that there are substantial costs associated with the kind of active role played by the State in East Asia. This final section considers this case in the context of each of the major components of the strategy of rural poverty alleviation identified above.

First, consider the role of the State in making numerous interventions affecting market forces and global free trade in order to promote specific activities as part of the strategy for rapid labor-intensive growth. In this age of globalization there is an increasingly dominant view that this can and usually does result in inefficient use of resources. The argument is as follows: the State is liable to make mistakes in identifying socially-profitable activities; the cost of such mistakes can be very large; it is far better to allow the forces of free market and global trade to determine the pattern of allocation of resources and economic development. This argument is often expanded to suggest that investment in much of infrastructure—power, communication and transport—should be left to the private investor, responding to market forces, and education and health services should be based on cost recovery. It is not far from truth to describe this as the development doctrine that dominates the consensus among the Bretton Woods institutions and their most powerful member. Poverty reduction is visualized as a process of rapid expansion of employment in response to growth fostered by the free market and free trade.

The evidence of history and contemporary development experience does not provide much support for this doctrine. In the age of rapid globalization over the last two decades, all the developing regions of the
world outside Asia have failed to prevent a decline in growth despite vast reform of their incentive systems to promote free trade and a free market. Although the past system of distorted incentives was dismantled, it was not replaced by an alternative system of incentives for growth. In Asia, economic growth, measured by the rate of increase in per capita GDP, accelerated during the period of globalization. In South Asia this was due to a very modest increase in the rate of GDP growth and a significant reduction in the rate of population growth. In China and South-East Asia (until 1997) GDP increased more sharply. Two facts need to be noted about all these Asian countries: First, in these countries the State had not abdicated in the manner suggested by the critics of the East Asian strategy. Secondly, the accelerated growth in these countries was very different from the East Asian experience discussed above in so far as economic growth has resulted in great imbalances and has been highly hostile to employment in the age of globalization, thereby seriously weakening its impact on poverty reduction.

In the words of Dani Rodrik, “Global integration has become, for all practical purposes, a substitute for a development strategy”:

This trend is bad news for the world’s poor. By focusing on international integration, governments in poor nations divert human resources, administrative capabilities, and political capital away from more urgent development priorities such as education, public health, industrial capacity, and social cohesion. This emphasis also undermines nascent democratic institutions by removing the choice of development strategy from public debate.

World markets are a source of technology and capital; it would be foolish for the developing world not to exploit these opportunities. But globalization is not a shortcut to development. Successful economic growth strategies have always required a judicious blend of imported practices with domestic institutional innovations. Policymakers need to forge a domestic growth strategy that relies on domestic investors and domestic institutions. The costliest downside of the integrationist faith is that it crowds out serious thinking and efforts along such lines.

Development policy must combine market-friendly reforms for integration with the global economy with the systematic promotion of socially profitable economic activities through more direct public provision of infrastructure, services and targeted, time-bound support. Merely replacing the former inefficient system of incentives with import-substituting industrialization, in the hope that the rest will be done by forces in the global economy, is simply an act of abdication that characterizes too many developing countries today.
The next important issue relates to State-sponsored land reform and other programs for providing the poor with access to non-land assets. The World Bank and other development agencies have been arguing that these “confiscatory and confrontational” reforms should be replaced by “market-friendly” methods of redistributing land by inducing large landowners to sell land to the poor whose ability to purchase is augmented by the provision of credit. Such programs are being tried out in Brazil under the auspices of the World Bank. So far, such policies have shown scant evidence of success in providing access to land to large groups of poor people. The poor rarely possess the power and resources required to use market transactions to gain access to a resource as valuable as land; when the poor are targeted to receive the large volumes of substantially subsidized credit necessary for such transactions, there are overwhelming problems of leakage in the direction of the non-poor. There is no reason to believe that market intermediation will give the poor substantially better access to land. If the government does not have the necessary political will or independence to impose redistribution on powerful social groups, then the government must be helped to acquire such will and independence. In developing countries, international development agencies have a remarkable record of pushing loads of unpopular reforms down the throats of governments, at times leading to their downfall. Might there be a case for including redistribution in favor of the poor in the conditions of policy lending, with strong incentives and possible bribes for powerful social groups?

If confiscatory and confrontational methods are ruled out, the alternative is market-driven, non-confrontational redistribution: acquiring land from the large landowners by paying them the market price and then selling it to tenants and the landless. What are the prospects of bringing about egalitarian redistribution by this method?

The implications for reform of this kind could be illustrated for Bangladesh, an extremely land-scarce country for which the necessary information is available. The top decile (i.e., rural households representing the largest 10 per cent of per capita landowners) own 47.2 per cent of land and the ninth highest decile of owners own 20.6 per cent. The bottom half of the population ranked in terms of per capita landownership had 5.7 per cent of land. Suppose 25 per cent of total land is acquired from the top decile for distribution among the bottom half of the landowners. This would still leave the top two deciles with 43 per cent of land. The overall distribution would still not be as equal as in the East Asian cases.

Even this modest redistribution by East Asian standards would require the acquisition of approximately 2.125 million hectares of land valued...
at $25.5 billion ($12,000 being the approximate average market price). Annual net output value per hectare is approximately $700. A reasonable set of terms of transfer to the recipients of land might be a third of the net value paid over a period of 15 years. Typical land rent being approximately 50% of net value, these terms would constitute a modest redistribution to asset-poor households. The East Asian beneficiaries of land reform paid a much smaller price as a proportion of output. Less generous terms than these would hardly qualify as significant redistribution.

Such a scheme would require a per hectare subsidy of $8,500 or a total redistribution cost of just over $18 billion. This does not take into account the cost of administering the program and assumes that the landlords would forego the interest on the deferred payment made by the peasants. Even so, this is 40 per cent of GDP, 4.5 times the annual government revenue and approximately nine times the annual gross capital inflow. It is inconceivable that domestic or international resources could be mobilized to implement such redistribution over a reasonable time horizon. The principal obstacle is the high ratio of land price to annual value of net output of land, 17 as compared to 1.5 to 2.5 during land reforms in Korea and Taiwan. These countries had the additional advantage of the windfall of public ownership of about 20 per cent of total land and a vast amount of non-land assets left behind by the former colonial power to ease the process of redistribution.

Lack of financial resources is not the only obstacle to egalitarian land reform. Few contemporary developing countries have the administrative capability to effect a transfer involving large subsidies without large-scale corruption and misappropriation of benefits. How did the East Asians do it? Was it the pressure of military occupation? The force or the threat of revolution? The absence of large-scale vested interests in the case of second land reforms in China and Vietnam? Or has the administrative ability of developing countries eroded over time as the dominance of the market, without a countervailing system of public monitoring, has strengthened the bureaucratic incentive to grab the scarcity premium?

Even for programs like micro-credit for the poor, the involvement of the government is absolutely essential, a fact that is amply demonstrated by the much-vaunted Grameen Bank in Bangladesh. It cannot operate on market principles. Despite charging the poor recipients an interest rate that is more than twice the rate of interest at which large private entrepreneurs borrow from formal banking institutions, Grameen Bank operations needed substantial public subsidy and foreign assistance through government intermediation. Despite this support and the efficient organization of this program in Bangladesh, which has drawn international
acclaim, the program’s ability to target the poor became distinctly weaker after the initial years. This is almost certainly due to the weak access of the poor to land and physical assets, the endowment of which often determines the efficient use of credit.

The leading role of the State in endowing the poor with human capital is indispensable if the externalities of investment in these activities are so huge that the market can never be trusted as a mechanism to allow the poor to acquire enough of these assets. Inequality in private expenditure on education and health is so enormous in the developing countries that, without an offsetting distribution of public expenditure in favor of the poor, it is impossible to bestow them with the minimum endowment necessary for overcoming poverty.

The East Asian experience demonstrates that in most of these areas the State can perform best in cooperation with the other stakeholders, NGOs, civil society and the private sector. In many cases, a partnership between the State and the other stakeholders can result in an efficient combination of the ability of the State to deal with large-scale externalities and the efficiency of other stakeholders in carrying out market transactions and organizing community effort. The comparison of the experience of Taiwan with that of Korea shows that the existence of grassroots organizations in the former enabled the government to successfully implement the tenancy reform that preceded land reform, while the absence of grassroots organizations led to a failure of similar tenancy reforms in Korea. These countries made extensive use of these organizations in the distribution of credit, extension services and inputs.

The East Asian example clearly demonstrates that the State should stay out of activities that involve pure commercial transactions. These include the delivery of inputs, credit and services. In much of the developing world, the State ventured into these areas as an entrepreneur. This is illustrated by the experience of the South Asian countries, which resorted to direct government control of prices, distribution and delivery of inputs like fertilizer and irrigation water. In these systems, often with substantial subsidies, the poor always lose out to those who have wealth and power. The danger of governmental failure is greatest in these areas. The market is the best method of distributing these inputs and services while the vulnerability of the poor is dealt with by directly redistributive policies.
References


CHAPTER 4

The Changing Nature Of The Agricultural Problem In Japan’s Economic Development

By Yujiro Hayami

Within a century of modern economic growth since the Meiji Restoration, Japan has gone through a rapid transformation from a low-income developing country to become one of the richest nations in the world. The role of agriculture in the national economy has undergone a drastic change. The role of agriculture vis à vis the rest of the economy has correspondingly experienced a major change. In this paper, the changing nature of the agricultural sector in the process of economic development will be outlined in order to provide a historical perspective about the current situation.

Agriculture In Economic Development

Table 1 helps to identify historical changes in the role of the agricultural sector in the process of development in Japan. As shown in Column (1) average per capita income in Japan in 1885 (the first year for which a national income estimate is available) was 630 US dollars in 1980 prices; this was comparable to the level of developing countries in South East Asia in 1980 (e.g. $430 in Indonesia, $670 in Thailand and $690 in the Philippines). By 1935, before the Second World War, Japan’s per capita income rose to $1600 dollars, a level comparable with present Newly Industrialized Economies (NIEs) (e.g. $1,520 in Korea and $2,050 in Brazil in 1980). After the spurt of post-war economic development, Japan joined the group of advanced industrial nations with per capita income in the order of $10,000.

Rapidly rising per capita income was accompanied by major changes in the industrial structure of the country. As shown in Columns (2) and (3) the agricultural sector (including forestry and fisheries) decreased from more than 70 percent to less than 50 percent in the total labour force. After 1945 it declined even further, to 10 percent in 1980. Meanwhile, agriculture’s share in total GDP declined from 45 percent in 1885 to less than 20 percent in 1935, and to 4 percent in 1980.

Changes in the structure of demand were a basic factor underlying the relative contraction of the agricultural sector. The share of food in total

* At the time of writing, Dr. Yujiro Hayami was the Director of FASID-GRIPS Joint Graduate Program, Foundation of Advanced Studies on International Development.
consumption expenditure (the Engel coefficient) shown in Column (4) declined from more than 60 percent in the early Meiji period to about 30 percent today. Meanwhile, the share of domestically produced raw foodstuffs in total food consumption decreased from nearly 70 percent to 20 percent, reflecting an increasing share of consumers’ food budget allocated to marketing and processing services (Columns (5), (6) and (7)).

The product of the Engel coefficient and the share of domestic foodstuff measure the effect of increases in foodstuff prices at the farm-gate on consumers’ cost of living. Data in Columns (4) and (5) show that a hundred years ago a ten percent increase in the producer price of agricultural products would have resulted in something close to a five percent increase in the cost of living for non-farm households; whereas in 1980 the same rate of increase in agricultural prices would have resulted in a one percent increase only. Obviously, the Japanese economy in its early stage of development was vulnerable to the “food problem” in the sense that the rise in agricultural product prices, the resulting increases in the cost of living and thus wage rates represented a serious impediment to industrialization and economic growth. Later, the menace of the food problem receded as per capita income rose in the course of economic development.

Agriculture-Industry Relative Income

The relative contraction of the agricultural sector in the course of economic development is a universal phenomenon explained primarily by the low-income elasticity of the demand for food. This process was augmented in Japan by a shift in the comparative advantage of the industrial sector over agriculture, which corresponds to the rapid decline of real labour productivity in agriculture in relation to that in the industrial sector (Column (8) in Table 1).

In the course of modern economic growth, the rates of growth of agricultural output and productivity in Japan were not low when compared with the experience of other developed countries (Hayami and Ruttan, 1970). However, output and productivity in Japan’s manufacturing sector grew at exceptionally fast rates. Japan’s basic development strategy since the Meiji Restoration has been to catch up with Western countries by importing their technologies, especially in modern industries. As a latecomer to industrialization, Japan was able to achieve a high rate of growth in industrial productivity by exploiting the considerable potential available through “borrowing” technology. During the past 100 years, the persistent lag in the growth of agricultural labour productivity vis a vis that of manufacturing in Japan was similar to that experienced by NIEs today. Until the
Second World War, a decline in the productivity ratio between agriculture and industry in real terms had been largely paralleled by a decrease in the ratio of average per capita income in farm households relative to that of non-farm households in nominal terms. This reflected a relative constancy in the domestic terms of trade between agricultural and manufacturing sectors (Columns (9) and (10) in Table 1). Such relations changed drastically after 1945. Despite the continued decline in the relative productivity of agriculture, per capita farm income increased faster than non-farm income and in 1980 the former exceeded the latter by 15 percent. The relative income position of farm households improved after 1945 because the domestic terms of trade greatly improved in favour of agriculture in addition to rapid increases in off-farm income in farm households.

The improvement in the domestic terms of trade for agriculture in Japan after the Second World War was not a result of free market mechanisms, it was explained by changes in industrial protection policies. The terms of trade in the domestic market of Japan improved in favour of agriculture from 1960 to 1980, while it deteriorated in the world market. Such divergent trends reflect both the decreasing trade protection of manufacturing commodities and the increasing protection of agricultural commodities; corresponding to the shift in Japan's comparative advantage from agricultural to manufacturing production. While the protection of the manufacturing sector was reduced as it left the "infant-industry" stage, protection of the agricultural sector was raised in order to moderate the adjustment of the declining sector.

**Three Agricultural Problems**

It is clear that until 1900 (or perhaps even until the First World War) the Japanese economy had been in a stage dominated by the "food problem". Since the 1960s, the agricultural sector has entered a stage dominated by the "agricultural adjustment problem". Indeed, during the former period, agricultural policies were mainly oriented towards increasing domestic production and a marketable surplus of food, whereas in the later period, policies have been geared towards supporting farm income by various protective means.

Between the eras of the "food" and "agricultural adjustment" problems, it is possible to identify an era in which public concern about agriculture was dominated by the "poverty problem". Throughout the pre—Second World War period, the growth of labour productivity in agriculture lagged behind that of manufacturing. However, unlike the period after 1945, agricultural protectionism did not increase to the point of in-
creasing the domestic terms of trade appreciably in favour of agriculture. As a result, per capita farm income declined from about 80 percent of non-farm income before 1900 to less than 40 percent in the 1930s. The problem of rural poverty became a source of social instability and disruption during the inter-war years, and social policies were oriented to alleviate the poverty of peasants; that was the prominent feature of Japanese agriculture in those years.

The inter-war years may be considered a period in which the Japanese economy reached the peak of the Kuznets’ inverted u-curve of income inequality. Why, then, was agricultural protection not strengthened at this time, unlike the recent period? The reason was the very strong opposition to agricultural protectionism. In this period the pressure of rising food prices on the cost of living was still strong, especially among manual (blue-collar) workers. At the same time, the industries that had international competitive advantage were those based on labour-intensive technologies and cheap labour. In those days, the increase in agricultural protection to a level comparable with that of today would have endangered the process of industrialization and economic growth and hence been strongly resisted by the non-farm sectors.

During the inter-war period the agricultural adjustment problem thus became serious as comparative advantage shifted away from agriculture due to the very rapid growth of industrial productivity. But the Japanese economy was not yet free from the menace of the food problem. Despite a growing rural-urban disparity, agricultural protection was kept under a certain limit. In these circumstances, the poverty problem emerged as the dominant problem in agriculture.

**Overcoming the Food Problem**

When Japan’s doors were opened to foreign countries, shortly before the Meiji Restoration, it was in real danger of colonization by Western powers. The national slogan of the Meiji regime was to “build a wealthy nation and strong army” (*Fukoku Kyohei*). To attain this goal the government considered it was important to “develop industries and promote enterprises” (*Shokusan Kogyo*). Since industrial development was the main national development goal, agricultural policies in Meiji Japan were geared toward securing sufficient domestic food supplies to prevent both a rise in the cost of living for urban workers and a serious drain of foreign exchange badly needed to import industrial capital goods and technology. Policy focused on ways to increase the marketable surplus of food products, especially rice, which was by far the most important determinant of wages for urban workers.
Policies to Produce a Marketable Surplus
The Land Tax Revision (1873-76) was the main policy that contributed to increase the marketable surplus of rice in the early Meiji period. During the Tokugawa period (which lasted some 300 years prior to the Meiji Restoration), peasants who held hereditary usufruct rights on farm-land from feudal lords were, in principle, forced to pay feudal tax in kind in proportion to harvested crop. The tax was assigned to each village, which was allotted by elected village officers (Mura Yakunin) to individual peasants. Later, the fixed land tax in kind became increasingly common because it was easy to collect. Meanwhile, the productivity of land increased and the gap between the tax and the rate of return to land widened. Through the illegal practice of land mortgaging and leasing, some peasants became de facto landlords, they collected rents from tenants and paid tax to feudal lords.

The Meiji government formally changed the feudal land tax to a modern tax in cash based on the assessed value of land. With this revision, farmers and landlords were forced to market nearly one-quarter of their rice output in order to pay the new land tax in cash.

The Land Tax Revision had another important consequence; it concentrated property titles in the hands of landlords. In the new regime, modern property rights on land were granted to those who had previously held traditional usufruct rights. Land tenancy became a legal institution. Because the new tax on land was fixed in cash, small peasants were often unable to pay the tax in years of bad harvest or low rice prices. They were compelled to borrow money from wealthier farmers or landlords, and many of them lost their land through foreclosure. This process accelerated during the so-called “Matsukata Deflation” in the mid-1880s, which was caused by the withdrawal of non-convertible paper currencies for the purpose of establishing the gold standard under the Minister of Finance, Mr. Masayoshi Matsukata. This deflation policy resulted in a drastic decline in agricultural product prices and raised the real value of agricultural debt. The area of land under tenancy was less than 30 percent of the total arable land area at the time of the survey conducted under the Land Tax Revision. It rose to 40 percent in 1892, and to nearly 50 percent by 1930 (Ouchi, 1960).

The growing concentration of land ownership, however, did not imply the polarization of peasantry into large estates and landless labourers. The traditional uni-modal agrarian structure dominated by small-scale family farms persisted (or was even strengthened) as the landlords stopped farming under their direct management and, instead, rented out their land in small parcels to tenants. In fact, this process had already begun in the 18th century with the progress of commercialisation and the development of
labour-intensive and land-saving technologies (Smith, 1959). From the late Tokugawa to the Meiji period, landlords took active leadership in technological development and diffusion as a way to increase land rent. It is considered that their supremacy in technological knowledge was an important factor underlying the concentration of farmland in their hands (Hayami et al., 1975).

Before the Second World War, rent for paddy fields was paid in kind, roughly 50 percent of the harvest. With the increasing share of land under tenancy the landlords—who had a much lower marginal propensity to consume rice—received an increasing share of rice output. This in turn contributed to the increase in the surplus of marketable rice. The export of rice in the early Meiji period was supported by the squeeze of farmers’ incomes as a result of heavy land tax and rent.

**Policies to Increase Agricultural Production**

A more positive measure to increase the marketable surplus of food was to increase agricultural production. Meiji Japan inherited from the Tokugawa period a very unfavourable endowment of agricultural land resources relative to both the population and the labour force—even when compared with other densely populated countries in East and South Asia. Given such initial conditions, how was Japan able to increase agricultural production?1

Critically important to the solution of the food problem was the fast growth in agricultural output and productivity in the initial phase. From 1880 to 1920, the total output and labour productivity in agriculture increased in real terms at the annual average rates of 1.8 and 2.1 percent respectively. Those rates were quite high compared with the historical records of Western Europe and the US.2 The growth rate of agricultural output exceeded the rate of growth of population during this period (1.2 percent per year). Therefore, even though per capita food consumption increased, a drain of foreign exchange from the import of foodstuffs was kept marginal. Instead, the agricultural sector acted as a major earner of foreign exchange through the export of silk and other agricultural commodities.

During the initial period we observe acceleration in the rates of growth. From the 1880-1900 period to the 1900-20 period, the growth rate of total output increased from 1.6 to 2.0 percent per year, and labour productivity increased from 1.6 to 2.6 percent. This acceleration in

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1 A detailed description of agricultural growth in modern Japan is given elsewhere (Ogura, 1963; Hayami et al., 1975).

2 Hayami and Ruttan, 1975, Appendix B
agricultural growth was parallel to that of the industrial sector. It was a major factor preventing the domestic terms of trade from turning against modern industries despite the rapid increase in employment and income in the non-farm sector during the take-off period.

Such quantitative evidence indicates that, even in the initial period Japanese agriculture followed a pattern similar to modern economic growth depicted by Kuznets (1966) and Schultz (1953), in which a major portion of growth in output and output per worker resulted not so much from increases in conventional capital and land as from technological progress (gains in output per unit of the conventional input). The evidence further suggests that technological progress in Meiji Japan was mainly land-saving, geared to raising yields per unit of scarce agricultural land. This hypothesis is also supported by the results of econometric analysis. A key to the success in solving the food problem in the Meiji period (1886-1911) may be identified as the sustained progress in land-saving technology.

How, then, was Japan able to achieve significant progress in land-saving technology in the early phase of modernization?

Productivity growth in agriculture—the dominant sector of the economy—was required not only to meet the growing demand for food and foreign exchange, but was also essential to finance industrialization and other tendencies towards modernization. Leaders of the Meiji government were sensitive to these factors and agricultural policies were geared to increase output and productivity—they were commonly called Kanno Seisaku (Policies to Encourage Agricultural Production).

Initially, the Meiji government tried to develop agricultural production by importing western technology. During the 1870s, large-scale machinery employed in England and the United States, and foreign exotic plants such as olives and grapes for wine, were used in experimental farms. Such early trials of direct “technology borrowing” represented one example of the broad efforts of Meiji Japan to catch up with western technology. Unlike the case in industry, however, this attempt was largely unsuccessful. The factor endowments and the scale of Japanese farming were simply incompatible with large-scale machinery of the Anglo-American type. In most cases, the efforts to transplant foreign plants and livestock also proved unsuccessful because of differences in ecological conditions.

The government perceived these failures and redirected its agricultural development strategy during the 1880s. The new strategy was to identify the best seed varieties and the most productive cultural practices used by farmers, improve them with the aid of new plant physiology and

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3 Kawagoe, Otsuka and Hayami, 1986.
soil chemistry in the Von Liebig tradition and then propagate them nationwide. Unlike the earlier emphasis on exotic plants and animals, the new emphasis was placed on traditional crops, especially rice, which accounted for about half the total value of agricultural output during the Meiji period. The government then employed veteran farmers (rono) as instructors in agricultural colleges and extension systems. In order to provide better information to the extension systems, agricultural experiment stations were set up for screening and tailoring veteran farmers' techniques through relatively simple comparative tests.

Such simple experiments provided the basis for the rapid growth of agricultural productivity during the latter years of the Meiji period. The potential of indigenous technology were further tested, developed, and refined at the new experimental stations. In addition, farmers who interacted with research workers showed a strong propensity to innovate.

During the 300 years of the Tokugawa period preceding the Meiji Restoration, farmers were subject to the strong constraints of feudalism. Personal behaviour and economic activity were highly structured organized within a strong hierarchical system. Farmers were bound to their land and were, in general, not allowed to leave their village. Neither were they free to choose what crops to plant or what varieties of seeds to sow. Barriers that divided the nation into feudal estates actively discouraged communication. In many cases, feudal lords prohibited the export of superior seeds or cultural methods from their territories. Under such conditions, diffusion of improved seeds and husbandry techniques from one region to another was severely limited, while significant improvements were achieved through farmers' trial and error, especially in western regions such as Kinki and North Kyushu. Japanese agriculture thus entered the Meiji period with a substantial backlog of unexploited indigenous technology.

With the reforms of the Meiji Restoration such feudal restraints were removed. Farmers were legally free to choose what crops to plant, what seeds to sow, and what techniques to practice. Nationwide communication was facilitated through the introduction of modern postal services and railroads. The cost of disseminating information about new technologies was greatly reduced. The land tax reform, which granted a simple fee system to title farmers' land and transformed the feudal sharecrop tax to a fixed-rate cash tax, increased farmers' incentives to innovate. Farmers, especially of the gono class (landlords who personally farmed part of their holdings) responded vigorously to such new opportunities. They voluntarily formed agricultural societies called nodankai (agricultural discussion society) and hinshukokankai (seed exchange society) and searched for profitable techniques of production.
Veteran farmer techniques were based on the experience of the localities from which they originated. They were very specific to the location where they came from and required further refinement when transferred to other areas. Simple comparative tests effectively screened the *rono* techniques and varieties, reducing the risk to farmers who adopted the new technology. Slight modifications or adaptations of indigenous techniques on the basis of experimental tests often gave them universal applicability.

The technology developed though this process was motivated by the need to increase land productivity and reduce the use of land, which represented the major constraint to agricultural production in Japan. However, it required an increase in the use of the input that was substituting land use—namely, fertilizer. Agricultural growth based on improvements of indigenous technology was supported by an improvement in the supply of fertilizers, which in turn depended on the existence of active entrepreneurship among farm supplying industries.

A prerequisite for the development of the seed-fertilizer technology was an irrigation and drainage system that could adequately control the supply of water. Meiji Japan was favoured by the inheritance of a relatively well-developed land infrastructure from the feudal period. Improvements in the irrigation system had been the major source of productivity growth during feudal times. Control of rivers and major irrigation systems had been the prime responsibility of feudal rulers. Local communities had taken the responsibility of maintaining and improving irrigation infrastructure at the village level by mobilizing communal labour, while the choice of cultivation practices and varieties in rice production itself had been left largely to the decision of individual producers within the boundaries of the management of communal irrigation systems. The development of irrigation was continuously promoted during the long peaceful Tokugawa period, in which land became increasingly scarce as a result of population growth. Increasing cooperation from villagers for the construction and management of irrigation systems was a major factor underlying the "tightly-structured" social system of Japanese villages. This situation contrasted with the "loosely-structured" system in other land abundant economies in South East Asia such as Thailand (Hayami and Kikuchi, 1981, pp. 20-1). By the late Tokugawa period, rice cultivation in dry upland conditions had become negligible. In 1883 (the first year for which official statistics were published) the share of upland rice in the total area of rice planted in Japan was about one percent and its share of rice output was about 0.5 percent.

By the beginning of the Meiji era nearly 100 percent of the paddy fields in Japan were irrigated. However, water supply was often insufficient and drainage facilities lacking in many fields. In order to facilitate projects to improve
the quality of land the government enacted the Arable Land Replotment Law in 1899 (revised in 1905 and 1909). By law: (a) participation in the project was made compulsory upon the consent of more than two-thirds of landowners owning more than two-thirds of arable land in the district concerned; and (b) associations were granted legal status in land improvement projects to facilitate access to credit. The government also established the Japan Hypothec Bank in 1897, which aimed to advance long-term credit for investment in infrastructure to improve the quality of land. As a supplement to the Hypothec Bank, in 1880-1900 the government established Banks of Agriculture and Industry, one for each prefecture. The government mobilized funds from postal savings through the Mortgage Bank and the prefectures Banks of Agriculture and Industry to advance low-interest credit for land improvement projects. Both central and local governments promoted land improvement projects through sub-sidies to agricultural associations.

Diffusion of the seed-fertilizer technology progressed nationwide on the basis of improvements in land infrastructure. It originated in advanced areas in western Japan where the population density was higher and the irrigation infrastructure better established. Later, beginning in the first decade of the twentieth century, this process was transmitted to the relatively backward eastern part of Japan.

From Tariffs to Imperial Food Self-Sufficiency

Governmental policies to develop agricultural production, when supported by high propensity of landlords to innovate, were successful in preventing the food problem from becoming a major impediment to industrialization and economic growth during the Meiji period. Early Meiji policies to encourage agricultural production were implemented when the interests of landlords and industrial capitalists coincided. In the early stage of industrialization—in which agriculture’s comparative advantage was still high, and demand for the production of domestic agriculture was highly elastic with respect to both income and prices—the landlords were able to increase their income by increasing agricultural output via increasing land productivity. Capitalists also wanted larger domestic agricultural production as a source of cheap food for their workers. Such coincidence of interests, however, was short-lived.

Based on the success of agricultural development, modern industries grew rapidly and comparative advantage shifted away from agriculture. The interests of landlords began to shift from an increase in agricultural production to political lobbying for protection. The situation was such that “the issue most loudly voiced in the general assemblies of the
Agricultural Society was not the increase in productivity but the increase in tariffs” (Tobata, 1956, p. 597). This shift in the interest of landlords reflected a shift in their role from an innovator in agricultural production to a mere recipient of land rent and a siphon of agricultural surplus to non-agricultural sectors—the so-called “transformation from entrepreneurial landlords to parasitic landlords” (Ouchi, 1960, pp. 85-96).

Voices for tariff protection of rice in the name of access to foreign exchange and national security considerations were raised when Japan became a net importer of rice in the 1890s. But voices that favour continuous cheap rice to guarantee cheap labour were equally strong. An ad valorem tariff of 15 percent was first imposed on imported rice in the first year of the Russo-Japanese War in 1904-05.

This tariff was levied to increase government’s revenue to finance military expenditures and it was cancelled at the end of the war. Landlords, however, lobbied to preserve the tariff and in 1906 they succeeded in making it permanent in the form of a specific duty of 0.64 yen per 60 kilograms. Subsequently, tariffs on rice became a major issue of public controversy (similar to those over the British Corn Laws and the German grain tariffs). Similar to the roles played by Robert Malthus and David Ricardo on the Corn Laws and Adolf Wagner and Lujo Brentano on the German grain tariffs, Jikei Yokoi at the University of Tokyo and Tokuzo Fukuda at the Tokyo College of Commerce (Hitotsubashi University) represented the two camps. Yokoi was the most outspoken leader of agricultural fundamentalism; he argued in favour of the tariff on the basis of national security, including the preservation of agriculture as crucial for the maintenance of strong soldiers. His arguments also included considerations on the balance of payments and the need to guarantee balanced growth between agriculture and industry. Fukuda retaliated on the basis of the economic doctrine of the Manchester school favouring free trade and industrial growth. The controversy continued within the National Diet. The Imperial Agricultural Society (representing landed interests) and the Tokyo Chamber of Commerce (representing manufacturers and traders of export goods) lobbied fiercely from the opposite end (Mochida, 1954).

In 1913 the controversy over rice tariffs in the Diet ended with the imposition of a specific duty of one yen per 60 kilograms, which could be lowered by 0.4 yen by an order from the government. An important qualification was made to the import of rice from overseas territories (Taiwan and Korea), which entered duty-free. This decision opened the possibility of solving two conflicting policy goals—(a) self-sufficiency of rice and (b) supply of cheap rice for urban workers—by expanding the supply of rice to Japan from its colonies overseas. This policy of imperial self-sufficiency
was adopted before the Kome Sodo (Rice Riot) in 1918 when “it was considered that the development of rice production in Japan’s territories overseas should be suppressed since it was increasing competition against Japanese agriculture” (Tobata, 1956, p. 597).

Increasing rice yields and the value of production kept rice imports from rising, but it began to slow down in the mid-1910s. As it became perfected and propagated, the technological potential, which existed in the early Meiji period was being exhausted (Hayami and Yamada, 1968). Agricultural experimental stations in their early days contributed to the growth of productivity in agriculture by exploiting indigenous potential rather than supplying new technology. The national experimental stations gradually came to conduct more basic research, including original crop-breeding projects at the Kinai Branch by cross-breeding (1904) and at the Rikuu Branch by pure line selection (1905). But results were not significant for more than two decades.

The exploitation of indigenous potential and the lack of new scientific research resulted in a serious shortage of rice and high prices when confronted with the expansion of demand due to the First World War. These factors naturally caused disruptions in urban areas and culminated in the Rice Riot of 1918, which swept over all major cities in Japan.

Faced with a choice between high rice prices, high cost of living and high wages on the one hand, and a drain on foreign exchange by large-scale rice imports on the other, Japan organized the imperial self-sufficiency program. Under the program Sanmai Zoshoku Keikaku (Rice Production Development Program) the Japanese government invested in irrigation, water control and research to develop high-yielding Japanese rice varieties easily adaptable to the ecologies of Korea and Taiwan. The success of this effort created a tremendous surplus that flooded the Japanese market. Within 20 years (from 1915-35), net imports of rice from Korea rose from 170 to 1212 thousand metric tons per year and net imports from Taiwan rose from 113 to 705 thousand metric tons. Because of this inflow of colonial rice, the net import of rice rose from five to 20 percent of domestic production.

With the success of imperial policies of food self-sufficiency Japan was able to overcome the food problem once again. However, this success paved the way for the explosion of the poverty problem in the inter-war period.

**Era of the Poverty Problem**

After the First World War, the capital intensity of Japanese manufacturing increased markedly, corresponding to a shift in its centre of gravity from
light to heavy industries. The productivity gap between large-scale industries in agriculture and manufacturing sectors—the so-called “differential structure”—emerged. In this context, both the productivity and wage rates of workers in large-scale industries were significantly higher than those of small and medium-scale industries. Workers in small-scale industries, together with those engaged in petty trades and other unskilled services, formed a reserve army of labour for large-scale industries. A major source of labour supply was the agricultural sector. Rural poverty was an anchor that prevented wage rates from rising in the urban-organized sector. The main problem in the design of agricultural policies was how to maintain the income and living conditions of small peasants without causing undue strain on the social and political stability of Japan. In that sense, the “agricultural problem” of the inter-war period was dominated by the “poverty problem.”

Policies During the Agricultural Crisis

Economic conditions in the inter-war period were generally unfavourable to agriculture. Demand for Japanese manufacturing products contracted with the recovery of Europe from the disruption of the First World War. Income (and employment) in the urban sector declined correspondingly. Increase in capital intensity in the manufacturing sector resulted in a slow increase in real wage income in relation to industrial output. Those factors contributed to a stagnant demand for food.

The success of the government program to develop Korea and Taiwan as major suppliers of rice to Japan was a mixed blessing. Large-scale imports in the context of a relatively inelastic demand schedule, lowered prices and discouraged the production of rice in Japan. It was estimated that competition from the colonies lowered the domestic price of rice in Japan by 40 percent in the mid-1930s (Hayami and Ruttan, 1970).

During the 1920s, competition from colonial rice producers, together with the government’s deflationary policy to return to the gold standard at pre-war parity, depressed agricultural prices and income. Finally, the world depression hit Japan, resulting in a serious agricultural crisis and the government was compelled to support rice prices.

When the price of rice began to fall in the 1920s the Imperial Agricultural Society put pressure on the government to adopt a rice control program, the so-called Ever-Normal Granary Plan. This demand brought about the Rice Law of 1921, which empowered the government to adjust

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\(^4\) Ohkawa, 1972; Minami, 1986, chapter 9
the supply of rice in the market by: (a) operating the purchase, sale, storage, and processing of rice within the financial limit of 200 million yen, and (b) the ability to change import duties and import restrictions for rice from foreign countries.

In response to the rapid decline in rice prices in the late 1920s and 1930s, the Rice Law was amended in 1925, 1931 and 1932, raising the financial limit to 480 million yen at the end of this period. In 1933, when a bumper crop caused a phenomenal surplus of rice, the Rice Law was replaced by the Rice Control Law, which authorized the government to buy and sell unlimited quantities of rice at certain prices. The government rice control operation was extended to colonial rice.

In addition to price support policies, the government developed various programs to mitigate the agricultural crisis including: (a) government spending on construction of physical infrastructure in rural areas in order to provide wage-earning opportunities; (b) provision of low-interest loans from the government to those farmers heavily in debt with private money lenders; and (c) the organization of economic recovery projects for villages that promoted self-sufficiency both in the production of inputs and in consumption goods, thereby reducing the cash expenditures of farm households. Those programs were promoted by government subsidies channelled through agricultural associations and cooperatives.

In spite of all those efforts, the level of income and living standard of people in the farm did not improve substantially. Tenant farmers, especially hard hit by the crises, demanded rent reductions. In this period the paternalistic relationship between landlords and tenants, which characterized the agrarian society of Meiji Japan, had faded as landlords had been transformed into a parasitic class. The tenant-union movements for rent reduction and the establishment of stronger tenancy rights gained momentum, and landlords retaliated, often foreclosing land tenure arrangements. Tenancy disputes became a common feature of rural Japan. In order to cope with this situation, the government tried to enact land reform programs but the strong political power of landlords prevented major accomplishment before the Second World War.

A Limit to Protection

Between the two world wars agricultural policies were called "agricultural-cum-social policies" (Ouchi, 1960). Unlike policies in the Meiji period that were oriented towards increasing production and generating a marketable surplus, policies in the inter-war were motivated to protect "poor
peasants” so that they would remain an anchor to social stability as well as a reserve of cheap labour for the urban sector.

The shift in policy orientation—from exploiting agriculture for the sake of industrial development to subsidizing agriculture for the alleviation of rural poverty—is best illustrated by changes in the sectional allocations of the tax burden and subsidies. In the early Meiji period (before 1900) the agricultural sector shouldered about 90 percent of the total direct tax burden, which amounted to about 15 percent of agricultural income. Direct taxes were only two percent in the non-agricultural sector. During this period, subsidies from the national government were allocated exclusively to the non-agricultural sector; the tax burden of the agricultural sector was reduced relative to that of the non-agricultural sector and the share of agriculture subsidies rose rapidly. In the 1930s, when the problem of rural poverty became serious under the influence of the world depression, the ratio of subsidy to income in the agricultural sector became higher than that in the non-agricultural sector.

Greater allocation of government subsidies to agriculture was partly a result of the political lobbying of landlords. It was also a result of decreasing resistance by industrial and commercial interests to agricultural subsidies. In the inter-war period modern industries in Japan reached a self-sustaining stage and were no longer so dependent on government supports as they had been in the Meiji period. They still needed cheap food for cheap labour, and on this score the interests of industrialists were in conflict with those of landlords. However, their interests coincided in the need to prevent peasants from becoming political allies to socialism and to labour union movements that began to gain momentum in this period. To some extent, industrialists found it necessary to concede to the demand of landlords.

There was a limit to increase agricultural protection before the Second World War, not because demand for protection was weak but because the food problem was still serious. As evident from the experience of the rice Riot in 1918, the level of income of urban workers before the Second World War was such that the major increase in food prices could result in disruption. To a large extent, the international competitive position of the manufacturing sector was still dependent on cheap labour; a major increase in wage rates resulting from large increases in food prices could not be tolerated.

In such circumstances, with whatever powerful lobbying the landlords were able to organize, it was not politically possible to raise the level of agricultural protection sufficiently high enough to reduce the rural—urban income disparity. The agricultural-cum-social policies were unable to prevent the agricultural crisis in the 1930s from turning the rural sector
into a nursery of Fascism, leading to military intervention in China and finally in the Pacific War.

Towards the Dominance of the Agricultural Adjustment Problem
During and immediately after the Second World War, the Japanese economy returned to a stage that was dominated by the food problem. But, within two decades after 1945, Japan had jumped to a new stage in which agricultural adjustment was the predominant problem. This process will be summarized below.

Food Policy During War and Recovery
When Japan waged the war against China (and later against the Allied Powers), they soon found out that the imperial food self-sufficiency in peacetime was no guarantee of food security during a period of crisis. After the "China Incident" in 1937, shortages of labour and material inputs, such as fertilizers, emerged and a decline in the supply of domestic food became evident. Government reserves of rice rapidly decreased and were eventually exhausted in 1939 when a severe drought hit western Japan and Korea.

Over the course of the war the government was forced to take direct control of rice distribution and began with the Rice Distribution Control Act in 1939. Increasing numbers of food items were added to the list of direct control and rationing. Finally, the Food Control Act, proclaimed in the second year of the Pacific War in 1942, put nearly all food items under strict government control.

The food problem became an especially critical issue in Japan during the recovery from the devastation of war. A compulsory delivery of rice from producers at a price far below market equilibrium had to be enforced to maintain the subsistence of a majority of the urban population suffering acute food shortage and hyperinflation. The consumer price of government-rationed rice was set even lower than producer and import prices.

The government also made substantial investments in reclamation, irrigation, drainage, agricultural research and technical extension. Increases in food production were considered a necessary condition in the design of industrial recovery. In the program for the rehabilitation of industry that began in 1946, called Keisha Seisanhoshiki (Differential Production Scheme), the government fund was first allocated to coal mining. Increased deliveries of coal were allocated to fertilizer, iron, and steel industries; increased deliveries of food due to increasing fertilizers together with higher production of iron and steel were returned to coal mining to expand the cycle of reproduction. As the industry was rehabilitated on the basis of
compulsory deliveries of cheap food, agricultural production recovered with the increased supply of industrial inputs to agriculture. Government control on food commodities was lifted one by one: potatoes in 1949, wheat in 1952, etc. The government planned to lift the direct control on rice in April 1952, but this plan was withdrawn because of the decreasing supply of food prospects during the Korean War.

Post-war Institutional Reforms

Immediately after 1945, reforms for the “democratization” of agrarian communities were promoted under the direction of the general headquarters of U.S. occupation forces (GHQ). Of special significance were the land reform and the reorganization of the associations of agricultural cooperatives.

The land reform was carried out between 1946-50 according to the strong recommendations of the occupation authorities (Ogura, 1963). The position of landlords had already been seriously undermined during the war. The urgent need to increase agricultural production by increasing incentives to production had overcome the opposition of landlords to improve the rights of tenants (the Farmland Adjustment Law 1938), to control rents (the Rent Control Order 1939), and to control land prices (the Farmland Price Control Order 1941). According to the land reform laws of 1946 (the Revision of the Farmland Adjustment Law and the Owner-Farmer Establishment Special Measure Law) the government was authorized to enforce the purchase of all farmlands owned by absentee landlords as well as the land holdings of resident landlords exceeding one hectare (four hectares in Hokkaido). The land was to be sold to tenants within two years after proclamation of the law. To implement the transfer of land an Agricultural Land Commission was established in each village consisting of three representatives from the landlords, two representatives from the owner-farmers and five representatives from the tenants.

Prices of land paid to landlords were 40 times the annual rent in the case of lowland paddy fields and 48 times in the case of upland fields. In this formula the rents in kind were evaluated by the commodity prices of November, 1945. In the process of rapid inflation from 1945-49 the real burden of tenant farmers in procuring land was reduced to a negligible level.

In four years from 1947-50, the government purchased 1.7 million hectares of farmland from landlords and transferred 1.9 million hectares—including state-owned land—to tenant farmers, which amounted to about 80 percent of the land under tenancy before the land reform. As a result, the ratio of farmland under tenancy declined from 45 percent in 1945 to 9 percent in 1955. Furthermore, the Agricultural Land Law (1952) in-
troduced rent controls set at a very low level for the remaining land under tenancy. This Law also imposed a limit of 3 hectares to landholding (12 hectares in Hokkaido) in order to prevent the revival of landlordism.

The success of the drastic land reform in Japan was, to a large extent, based on the power of the occupation forces. Equally critical was the knowledge and experience of the land-tenure system accumulated by the Japanese government through the trials to settle tenancy disputes during the inter-war period. Also important were the various measures introduced during the war to regulate land tenure, which had the effect of undermining the position of landlords.

It must be recognized, however, that although the land reform resulted in a considerable change in the distribution of land ownership, the distribution of cultivation units as such did not experience any basic change. The traditional agrarian structure of Japan, based on a "unimodal" distribution of small-scale family farms with an average size of about one hectare, remained essentially unchanged, irrespective of the rise and fall of landlordism.

There is no doubt that the land reform promoted more equal assets and income distribution among farmers, and hence contributed to social stability of the rural sector. However, the reform did not induce changes in the direction of technological developments because, as before, small-scale family farming remained the basic unit of agricultural production. Although land reform contributed to an increase in the standards of living and consumption, its contribution to capital formation and the growth of productivity in agriculture was not quantitatively significant (Kawano, 1969).

Another reform, which also had a major impact on the agricultural economy and rural society was the reorganization of agricultural cooperative associations. During the war, the associations and agricultural cooperatives were integrated into a semi-governmental organization called Nogyokai (Agricultural Society) designed to share the responsibility of controlling and mobilizing village economies for war purposes. The GHQ dissolved this organization in 1947. The economic functions of Nogyokai, which included marketing and credit, were transferred to the agricultural cooperative associations re-established by the Agricultural Cooperative Law in 1947.

The agricultural cooperative associations—commonly called "NOKYO", an abbreviation of Nogyo Kyodo Kumiai—inherits from the Nogyokai their nation-wide organizational capacity. “General cooperatives” (Sogo NOKYO)—today numbering more than 4000—engage in marketing of all farm products and inputs, credit and insurance policies. Each cooperative operates in the regional franchise of a village or town.

The development of cooperative associations, especially Sogo NOKYO, was facilitated by generalized government controls on agricultural prod-
The cooperatives monopolized the delivery of food products—above all, rice—to the Food Agency of the Ministry of Agriculture and Forestry and the distribution of government rations of fertilizers and other inputs. Even today, probably more than 70 percent the rice and fertilizers is marketed through agricultural cooperatives, although the exact volume of rice marketed through illegal private channels cannot be identified.

Their monopolistic position has also been strengthened by the assignment of semi-governmental functions to them, such as channelling low-interest institutional loans.

The basic feature of Japanese agriculture today, consisting in a large number of small-scale owner-farmers organized by NOKYO, was framed through the reforms of the post-war period.

**The Emerging Need of Agricultural Adjustment**

After the mid-1950s, when Japan recovered from the devastation of the war and set off on its miraculous period of economic growth, agriculture began to face serious adjustment problems.

The rate of growth of productivity in agriculture, although rapid by international standards, was not rapid enough to keep up with the growth of the industrial sector. The terms of trade for the agricultural sector did not improve during the 1950s, since the end of the Korean War. This was partly due to the pressure of surplus agricultural commodities in the US and other exporting countries, and partly because the domestic demand for major staple cereals (especially rice) approached the saturation point after the bumper crop of 1955. During the 1950s the level of income and living standards of farm households lagged behind those in urban areas.

In this context the major goal of agricultural policy shifted from an increase in the production of food staples to a reduction in the rural-urban income gap. In 1956 the New Village Construction Program was initiated to attain this goal. This program was designed to improve the rural economy by providing a package of economic and social infrastructure to the villages that prepared their own village development plans. Each village was encouraged to design and promote its own agricultural development plan in order to increase the production of commodities with high-income elasticities, such as livestock, fruits and vegetables. Long-term government-funded credits were advanced from the Agriculture, Forestry and Fisheries Credit Corporation for the purchase of livestock pasture improvement and more.

The need to assist adjustment in agriculture increased in the 1960s as the rural-urban income gap progressively widened and outward migra-
tion of agricultural labour accelerated. In 1961, these difficulties led to the enactment of the Agricultural Basic Law, a national charter for agriculture (Ogura, 1963, pp. 286-96). This Law assigned responsibility to the government to raise productivity in agriculture to help close the income and welfare gap between farm and non-farm households. Some of the measures identified by this policy was the selective expansion in the production of agricultural commodities in response to a changing structure of demand and also to enlarge the scale of the production unit. An important component of the agricultural development policy enacted by this Law was the promotion of the growth of family farms to “viable units” defined as those that could earn a level of income from agriculture comparable to that of non-farm households. Increase the scale of operations was considered essential to improve farms’ efficiency, reducing the number of inefficient farm units and cooperative operations among the remaining farms.

Despite all these efforts to induce a structural change the rate of growth of productivity in agriculture did not increase sufficiently enough to prevent the rural–urban income gap from widening further. Farmers organized a political lobbying effort to gain government’s support for the determination of agricultural product prices. Their pressure focused on rice and in 1960 its price was set through a formula called the “Production Cost and Income Compensation Formula”.

The producer price of rice rose rapidly, corresponding to the rise of industrial wages, until 1968 when accumulated surplus of rice stored by the government put a temporary brake on further price increases. From 1960 to 1968, producer rice prices doubled and the difference between producer and import prices widened from less than 50 to more than 120 percent.

The Production Cost and Income Compensation Formula was designed to reduce the gap between farm and non-farm income by raising rice prices. Apparently this policy achieved its goal. With a rapid rise of agricultural prices as compared to those in manufacturing, income per agricultural worker improved after 1960 when compared to the income of manufacturing workers. Increasing rice prices was a major factor in improving the domestic terms of trade to agriculture. The rise in agricultural prices, together with the increase in off-farm income, resulted in a marked reduction in the income gap per person and per household between agriculture and non-agriculture (Column (9), Table 1).

Satisfying the objective of income parity translated into a substantial loss of economic efficiency. High prices for rice should have reduced consumer surplus, not only by contracting the demand for rice itself, but also by obstructing the shift of resources from rice to other high-demand agricultural products such as livestock and vegetables. Support to rice prices
also depressed migration of agricultural labour to non-agriculture activities. More conspicuous inefficiencies were the rapidly accumulating rice surplus in government storage and the multiplying deficit generated by this program.

How could such a waste of resources and loss of economic efficiency be tolerated during the 1960s? Certainly, it was the powerful political pressure of NOKYO that achieved such handsome rise of agricultural support prices. Although people in farming declined in the course of rapid industrial growth, electoral districts have changed little, leaving the political weight of farmers’ votes intact. Rural districts continue as solid conservative blocks, which the present government—ruled by the conservative Liberal Democratic Party (LDP)—could not dare to lose.

Why, then, were the powerful rural votes unsuccessful in raising the price of rice during 1950s? Why couldn’t the equally strong (or stronger) political power of landlords before 1939 achieve a comparable support for agriculture?

These questions can be answered only in terms of the decline in the role of rice as a wage good for industrial development. The large spurt of industrial development since 1955 ushered the Japanese economy into a new era. In ten years, real per capita income more than doubled and approached the level of Western Europe. Both the industrial structure and the export structure came to be dominated by capital-intensive industries. Labour shortage became a secular feature of the economy after 1960, and wage differentials were greatly reduced among different size enterprises and between blue-collar and white-collar workers.

With the dramatic increase of income and wages among industrial workers—particularly low-income manual workers—their diet changed rapidly. Indeed, according to a survey from the Ministry of Labour (Maigetsu Kinro Tokai Chosa), the average compensation of industrial employees, deflated by the consumer price index, doubled between 1955 and 1970; and it doubled again over the following decade and a half. Before 1960, the decline in starchy food staples in the total caloric intake of Japanese was mainly attributed to the decline of inferior grains such as barley. Since 1960, the share of rice started to decrease. Absolute consumption of rice per capita declined from the peak of 118 kilograms per year in 1962 to 95 kilograms in 1970, and 80 kilograms in 1980. In the consumption expenditures of urban workers expenditures on rice declined from ten percent in 1960 to four percent in 1970, and two percent in 1980.

Meanwhile, because of the rise in capital intensity and the transformation of the industrial structure, increases in the cost of living and wages became less critical for the international competitive position of Japanese in-
TABLE 1: Agriculture in Japan’s Economic Development, 1885-1980

<table>
<thead>
<tr>
<th>SHARE OF AGRICULTURE</th>
<th>SHARE IN FOOD CONSUMPTION</th>
<th>Agriculture/Manufacturing Terms of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP per capita labor force</td>
<td>GDP coefficient</td>
<td>Domestic foodstuffs</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1885</td>
<td>630</td>
<td>73</td>
</tr>
<tr>
<td>1890</td>
<td>710</td>
<td>71</td>
</tr>
<tr>
<td>1900</td>
<td>880</td>
<td>68</td>
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<td>1910</td>
<td>1000</td>
<td>65</td>
</tr>
<tr>
<td>1920</td>
<td>1260</td>
<td>54</td>
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<td>1930</td>
<td>1350</td>
<td>50</td>
</tr>
<tr>
<td>1935</td>
<td>1620</td>
<td>47</td>
</tr>
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<td>1955</td>
<td>1850</td>
<td>39</td>
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<tr>
<td>1960</td>
<td>2690</td>
<td>32</td>
</tr>
<tr>
<td>1970</td>
<td>6920</td>
<td>17</td>
</tr>
<tr>
<td>1980</td>
<td>9890</td>
<td>10</td>
</tr>
</tbody>
</table>

NOTES
(a) US$ in 1980 prices.
(b) %

SOURCES


(7) \(100 - (5)-(6)\).

(8) The ratio of real GDP per worker in agriculture, forestry and fishery to real GDP per worker in mining and manufacturing. The numbers of workers in fishery for 1880-1900 are assumed as three percent (the 1906-10 average ratio) of the workers in agriculture and forestry. The numbers of workers in mining and manufacturing for 1880-1900 are assumed as 72 percent (1906-10 average ratio) of the total labor force minus those of agriculture, forestry, fisheries, commerce and services. Data from the O-S series; the JEPA series; LTES, vol. 1; the Labor Force Survey.

(9) The ratio of average income per family member in farm households to that of urban worker households. The 1880-1935 data from T. Otsuki (1982). The 1955-80 data calculated from the Ministry of Agriculture, Forestry and Fisheries, Farm Household Economy Survey; and the Prime Minister’s Office, Household Survey.

(10) The ratio of the producer practice index of agricultural products of the JMAFF and the Bank of Japan’s Wholesale Price Index of manufacturing commodities.
dustry. Rice was no longer a critical wage good for industrial development. Through post-war economic growth, Japan’s economy reached a stage in which there is little danger of urban disruption—such as the Rice Riot in 1918—that could occur in response to food price increases. In such context, industrial and commercial concerns found it advantageous to keep farmers as their allies against the tide of socialist and communist movements, even at the expense of high food prices. This appears to be the reason why NOKYO’s political pressure was able to achieve a high rate of agricultural protection.

Clearly, during the 1960s, the Japanese economy entered a stage in which agricultural policies were entirely dominated by considerations based on the “agricultural adjustment problem”.

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CHAPTER 5

Role of the State and NGOs in Curbing Poverty in South Asia: The Bangladesh Case

By Abdul-Myeed Chowdhury*

If you ask people who are not themselves poor what they mean by Poverty, most will give similar answers. They will describe a person or family surviving under conditions they themselves would find intolerable—undernourished, unhealthy, ill-clothed, badly housed and badly defended against misfortune. — Robin Marris

Poverty in Asia

A huge body of literature has grown over the past three decades on poverty and its alleviation. Estimating poverty in Asia is problematic in terms of quality and reliability of data. Changes in the definition of the poverty line also make an accurate estimate difficult. The available evidence indicates that around 1.3 billion people in the world are now living below the poverty line. South Asia, (comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) has emerged by now as the poorest, the most illiterate and the most malnourished region in the world. Over 40 percent of the world’s poor live in South Asia. More people are living in absolute poverty in this region than in the Sub-Saharan Africa.

There is considerable variation in the incidence of poverty in Southeast and South Asian countries, though there is a recent trend toward improvement in most of these countries. One reason is the Green Revolution, which has helped several countries (e.g., India, Indonesia, Pakistan, the Philippines, and to some extent, Bangladesh) avert major food shortage-related disasters though it has increased the income gap among the rural households. South Asian countries have taken various initiatives to improve the social and economic conditions of their citizens. They have accelerated national production and economic growth, but cannot ensure equitable access to benefits to the poor and disadvantaged groups. Some countries such as Bangladesh, Nepal, Laos, and Vietnam are at a critical level of rural poverty (more than 45 percent of the rural population). India, the Philippines, Indonesia, Iran, Pakistan, Sri Lanka and Thailand have moderate levels of poverty (20-45 percent).

* At the time of writing, Abdul-Myeed Chowdhury was the Executive Director of the Bangladesh Rural Advancement Committee (BRAC)
TABLE 1: Population in poverty in selected Southeast and South Asian countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of poor (million)</th>
<th>% of total population in poverty</th>
<th>Number of rural poor (million)</th>
<th>% of total poor in rural areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>99.4</td>
<td>85.9</td>
<td>83.1</td>
<td>84</td>
</tr>
<tr>
<td>India</td>
<td>410.0</td>
<td>48.1</td>
<td>320.0</td>
<td>78</td>
</tr>
<tr>
<td>Indonesia</td>
<td>69.5</td>
<td>37.7</td>
<td>55.2</td>
<td>79</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.7</td>
<td>26.3</td>
<td>3.8</td>
<td>81</td>
</tr>
<tr>
<td>Myanmar</td>
<td>16.7</td>
<td>40.0</td>
<td>12.5</td>
<td>75</td>
</tr>
<tr>
<td>Nepal</td>
<td>11.6</td>
<td>60.1</td>
<td>10.6</td>
<td>91</td>
</tr>
<tr>
<td>Pakistan</td>
<td>36.8</td>
<td>30.0</td>
<td>24.2</td>
<td>66</td>
</tr>
<tr>
<td>Philippines</td>
<td>36.2</td>
<td>58.0</td>
<td>22.9</td>
<td>63</td>
</tr>
<tr>
<td>Thailand</td>
<td>16.5</td>
<td>29.6</td>
<td>14.7</td>
<td>89</td>
</tr>
</tbody>
</table>


A vast majority of South Asia’s poor live and work for their livelihoods in rural areas, mostly in agriculture. Landholdings are becoming increasingly smaller and the rate of landlessness is on the rise due to population growth. In many South Asian countries, landlessness and a consequential absence of employment opportunities in rural areas are key problems for the rural poor, resulting in low levels of income, illiteracy, malnourishment, and high morbidity.

**Sectoral Composition of GDP: Southeast and South Asian Countries**

The economy of South Asian countries is largely dependent on agriculture. Fortunately, most recent trends reveal a tendency towards diversification with important growth in the services and industrial sectors during the 1990s, which helped alleviate poverty.

In recent years, economic growth has been faster in South Asian countries and some governments have focused more on reducing poverty through important regional initiatives. In the early 1990s, an Independent Commission for Poverty Alleviation in South Asia was set up and heads of government made a joint declaration for mutual support and consultations on poverty eradication initiatives. As a result of multidimensional efforts, the population living in poverty declined from 53 percent in 1970 to 35 percent in 1993 in India; from 40 percent in 1965 to 30 percent in 1995 in Pakistan; and from around 70 percent in 1973 to 46 percent in...
TABLE 2: Landless households as a percentage of total agricultural households in selected South Asian countries.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>YEAR</th>
<th>PERCENTAGE OF LANDLESS HOUSEHOLDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>1984</td>
<td>62</td>
</tr>
<tr>
<td>India</td>
<td>1981</td>
<td>56</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1980</td>
<td>73</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1981</td>
<td>53</td>
</tr>
</tbody>
</table>


1995 in Bangladesh. However, poverty in Nepal increased from 36 percent in 1976 to 45 percent in 1996 (CIRDAP, 1999).

**Poverty reduction strategies in some Asian countries**

In most cases, rural development has been used as an important instrument for fighting hunger and food insecurity, decreasing rural unemployment, illiteracy, diseases, and malnutrition in South Asian countries.

Poverty is no longer hidden in far-flung rural areas. It is becoming an urban phenomenon. In fact, rapid urbanization in South Asia is creating an explosive situation. The rate of urbanization in South Asia over the last quarter of a century is second only to East Asia. South Asia’s urban population has more than doubled since 1970. The experience of India illustrates this vividly. Historically, urban poverty in India has been much lower than rural poverty, but since the late 1980s the majority of the poor live in urban areas. A recent study suggests that 30 to 60 percent of residents in urban areas in South Asia live in slums and another 25 to 30 percent live in illegal squatter settlements. Bangladesh is also urbanizing rapidly: in early 1980s only 10 percent of the country’s population was living in urban areas, compared to 20 percent now. Dhaka has around half a million people and new settlers arrive every year. About 31 percent of the urban population in Bangladesh is poor.

**Bangladesh: Country profile**

Bangladesh has a population of nearly 130 million and an essentially agro-based economy. Agriculture contributes over 35 percent to GDP and employs 60 percent of the labor force. Land is the most important productive asset in rural areas but its distribution is highly skewed. Over 50
FIGURE 1: Sectoral Share in GDP, 1994

Thailand
Phillipines
Malaysia
Vietnam
Sri Lanka
Pakistan
Nepal
Myanmar
Laos
Indonesia
India
Bangladesh

Percentage

Services
Industry
Agriculture
percent of the rural population is landless but largely dependent on agriculture for their livelihoods.

With a per capita GDP of US $314 (at 1995-96 prices) it is one of the poorest countries in the world. Based on the direct calorie intake method, the percentage of poor households declined from 63 percent in 1983-84 to 47 percent in 1995-96 (Bangladesh Bureau of Statistics, 1997). The country is lagging behind in many indicators of development though over the last two decades the country has achieved impressive results in many fields of socio-economic development. Immunization coverage reached over 70 percent in the early 1990s, up from a low 2 percent in 1985. The contraceptive prevalence rate (CPR) has risen to nearly 50 percent, from under 10 percent in the mid-1970, and total fertility rate has declined from over 6 percent in the 1970’s to 3.2 percent in the late 1990’s. Net enrollment in primary schools has increased to 77 percent and the gender gap has all but disappeared. In terms of poverty alleviation, government and non-governmental organizations (NGOs) have made significant progress; microfinance programs now serve nearly seven million families, more than half of the country’s 12 million poor households (Abed, 1997). Despite these impressive strides, Bangladesh remains one of the world’s poorest nations.

Rural development

Since independence in 1971, Bangladesh has experimented with a wide variety of programs, projects and approaches to promote rural development. The government has formulated Five Year Plans where rural development has been defined a priority. Apart from various government offices, the Bangladesh Rural Development Board (BRDB) was set up to organize farmers and rural women into cooperatives to improve their productive capacity. Nationalized commercial banks opened branches for the first time in the rural areas to provide institutional credit. These two initiatives created some economic opportunities for the well-off section of the rural population, but did not benefit the poor.

Government estimates placed four-fifths of the country’s populations below the poverty line in 1980, yet no targeted policies were adopted to fight poverty. The strategy to alleviate poverty was ‘comprehensive rural development’ with no specific interventions for the poor. Three main components were included in the government’s proposal of comprehensive rural development: (a) institutional development and structural change, including strengthening local governments and cooperatives, and a proposal for land and agrarian reform, (b) irrigation, seeds and other inputs to increase agricultural production, and (c) non-agricultural components
such as physical infrastructure development (Second Five Year Plan 1980-85; section VII, pp. 1-16). The majority of the rural population was either landless or marginal farmers, but there were no specific programs to support income and employment initiatives for the poor. No major land or agrarian reforms were carried out during the implementation of the five-year plan in 1980-85, nor at any other later date. Public sector interventions were not efficient in promoting development favoring the poor.

In the 1990s, the State has adopted two important programs to benefit the poor: stipendiary support for female students and a 'food for education' program. The former has enhanced the enrolment of girls in secondary schools while the latter has increased enrolment and attendance of poor children in primary schools. The government has also recently introduced a monthly stipend for the elderly poor and women in distress. All these programs offer a safety net for the extremely poor and disadvantaged women.

NGO Intervention

Non-governmental organizations (NGOs) have played a vital role in poverty alleviation in Bangladesh. The country has a long history of voluntary organizations in the social sector, formed under local initiative with funding from local philanthropists. They have long been recognized by the government, which provided annual grants to encourage them. Initially they were mostly involved in recreational activities, relief and disaster management and occasionally in development areas such as literacy campaigns and the eradication of mosquitoes for malaria control.

NGOs appeared on the development scene only after the independence of Bangladesh following the War of Liberation in 1971. The government of the day inherited a country ravaged by the scorched earth tactics of an occupying army, a nearly empty treasury, destroyed crops and millions of returning refugees with no food, shelter or health care facilities. About 80 percent of the country's population was poor. International NGOs arrived with massive assistance and started relief and rehabilitation work by directly recruiting staff and/or taking on local voluntary organizations as partners. The relief and rehabilitation phase gradually led to the development phase as a natural consequence of limited government resources, almost non-existent local government and widespread corruption in the public sector.

NGOs are a new breed of development organization in Bangladesh. They have introduced people-centered development and targeted programs that focus on the poor and disadvantaged women, intervening at the grassroots level. The approximately 15,000 NGOs operating in the
country now cover almost all sectors of development: health, nutrition, education, literacy, skills and awareness development training, employment and income generation, credit and savings and marketing and social development. The latter include legal education and all aspects of gender equity. They also work as partners with various government organizations to deliver services to rural areas.

Microfinance and skill development are probably the largest NGO programs to be successful in poverty alleviation and empowerment of the poor. As of December 1999, there were 533 NGOs providing microfinance facilities to the poor. The largest NGOs are BRAC, Proshika, ASA and Swanirvar. The Grameen Bank, a special organization set up by the government, is by far the largest in Bangladesh.

**TABLE 3: Microfinance statistics of GB and some major NGOs as of December 1999**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Membership ('000 members)</th>
<th>Savings (million taka)</th>
<th>Disbursement (million taka)</th>
<th>Outstanding Loan (million taka)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grameen Bank</td>
<td>2,367</td>
<td>9,676</td>
<td>124,035</td>
<td>13,724</td>
</tr>
<tr>
<td>BRAC</td>
<td>3,057</td>
<td>2,903</td>
<td>34,653</td>
<td>6,725</td>
</tr>
<tr>
<td>Proshika</td>
<td>1,453</td>
<td>727</td>
<td>9,646</td>
<td>3,247</td>
</tr>
<tr>
<td>ASA</td>
<td>1,179</td>
<td>1,269</td>
<td>14,429</td>
<td>3,679</td>
</tr>
<tr>
<td>Swanirvar</td>
<td>694</td>
<td>155</td>
<td>1,736</td>
<td>437</td>
</tr>
</tbody>
</table>


**BRAC: The largest NGO**

BRAC was set up in 1972 as a small organization to rehabilitate returning refugees displaced during the War of Liberation in 1971. BRAC soon realized that relief assistance, though necessary, was creating a state of dependency and was not providing lasting solutions to the problems of the poor, so it shifted its focus to holistic rural development programs with the direct involvement of rural communities. However, within the rural communities there is a skewed distribution of power, privilege and access to resources, including the most valuable resource—land. Therefore, a second transformation came about in BRAC’s focus when it decided not to deal with the upper levels of village hierarchy and work directly with those on the lower rungs of the income ladder—the landless and those without assets. Since this transformation in 1977, BRAC has been relentlessly providing support
to disadvantaged people, particularly women, in order to eradicate poverty by empowering the poor. Any person who is landless or has no more than 50 decimals of land and sells a minimum of 100 days of labor in a year for survival can become a member of any village-based BRAC group and participate in microfinance and other programs. Over the years, BRAC’s multi-sectoral programs in health, nutrition and sanitation, education and literacy, employment and income generation, credit and savings, social development, production, processing and marketing, and enterprise and human resource development have spread to all parts of the country.

Table 4: Scope of BRAC Programs, December 2000.

<table>
<thead>
<tr>
<th>Service</th>
<th>Full-time staff</th>
<th>Part-time staff</th>
<th>Participants in credit programs</th>
<th>Loans disbursed to the poor</th>
<th>Savings by the poor</th>
<th>Villages with BRAC programs</th>
<th>Human rights, legal education and services (learners)</th>
<th>Primary schools</th>
<th>Students enrolled</th>
<th>Health, nutrition &amp; population (population covered)</th>
<th>Total budget (annual)</th>
<th>US $132 million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25,156 (27% women)</td>
<td>34,044</td>
<td>37.4 million</td>
<td>US $1,222 million</td>
<td>US $71 million</td>
<td>50,000</td>
<td>16,84,165</td>
<td>30,691 (97% women)</td>
<td>1.10 million (66% girls)</td>
<td>31 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Employment and income generation for the poor is the primary focus of BRAC’s poverty alleviation strategies and access of the poor to improved technologies has been a core part of its economic programs. BRAC has made significant contributions to the diffusion of more productive technologies in a number of ways, including: encouraging the use of hybrid seeds in crop production, seed multiplication and tissue culture, growing improved varieties of mulberry trees, quality production of cocoons and modern reeling facilities, poultry farms to produce high yielding varieties of poultry birds, and scientific poultry farming, artificial insemination in livestock and fish hatchery development. Various methods and devices have evolved to ensure that the poor, particularly women, have access to these improved technologies. Over 95 percent of participants (37.4 million) in BRAC’s poverty alleviation programs are women.

Programs for income generation emphasize development of backward and forward linkages. An example is the vegetable program, where activities cover the entire chain from seed production to vegetable export.
BRAC supports the production of high quality seeds, distribution among farmers, provision of extension services, purchase of the final product and exports to markets in Europe and East and Southeast Asia. Linking poor, tiny producers with local and external markets has been a distinctive feature of BRAC’s poverty alleviation programs.

BRAC started off with donor support in 1972 and contributions increased continuously as projects proved to be successful and there was expanding capacity to implement them. Its annual budget for the year 2000 was US $132 million, of which 75 percent was generated by BRAC itself from its various programs, including micro-credit operations. In 1994 donors funded 72 percent of BRAC’s budget of US $64 million.

**Government-NGO Partnership**

Within the complex context of Bangladesh, NGOs reinforce and complement government-sponsored activities with their greater flexibility, responsiveness and effectiveness in reaching the grassroots level. BRAC is keenly pursuing a Government-NGO partnership in various fields of poverty alleviation. An example is the *Income Generation for Vulnerable Group Development (IGVGD)* program. IGVGD was piloted by BRAC, in cooperation with the government, to improve the income potential of the extreme poor, most of who are destitute women. Through this program, the government and the World Food Program provide a monthly free ration of 30 kg of wheat for 18 months, while BRAC provides training to the recipients in a range of income-generating activities, as well as Human Rights and Legal Education, Essential Health Care and access to micro credit.

**BRAC Development Program (BDP)**

The BDP is BRAC’s largest and the most fundamental development program for poverty alleviation and empowerment of the poor. It includes Social Development, Savings and Credit, Sector Programs, the Rural Enterprise Program, Micro-Enterprise Lending Assistance (MELA), the NGO Co-operation Unit and the Chittagong Hill Tracts Program.

The rural poor, without the capacity to offer collateral or borrow large sums of money, have virtually no access to formal banking facilities for savings and borrowing. BRAC’s *Savings and Credit Program* provides loans both to poor individuals and groups. By the end of December 1999, approximately 3.74 million poor households organized by BRAC at the grassroots level had accumulated US $74 million in savings and loans worth US $2.4 million. To date, the organization has disbursed a total of $1,222 million in loans to its group members. The repayment rate is very high—98.4 percent.
BDP has a number of programs under Sector Programs for the poor, which involve a well-integrated package of technical and input support to augment their income.

Table 5: Activities Under BDP Sector Programs.

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poultry</td>
<td>Mini poultry hatchery, chick rearers, key rearers, egg collector, poultry worker (vaccinator)</td>
</tr>
<tr>
<td>Livestock</td>
<td>Para-veterinarians, goat rearer, cow rearer, artificial insemination center</td>
</tr>
<tr>
<td>Fisheries</td>
<td>Small fish hatchery, carp nursery, carp polyculture, Thai Sarputi culture, pond re-excavation, oxbow lake fisheries</td>
</tr>
<tr>
<td>Sericulture</td>
<td>Mulberry tree plantation, chawki rearer, progressive silk farmers, reeling centers, silk weaving</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Vegetable cultivation, vegetable seed production, maize cultivation, spice cultivation, home gardening</td>
</tr>
<tr>
<td>Social Forestry</td>
<td>Tree plantation, grafting nursery, agro forestry, strip plantation</td>
</tr>
</tbody>
</table>

The Rural Enterprise Program (REP) is another device for supporting and promoting the development of non-farm enterprises for the rural poor. It encourages women to take up non-traditional roles by creating and managing small enterprises such as restaurants, grocery stores, laundry and tailoring shops. All such enterprises use common Bengali brand names with the BRAC logo on their signboards. By the end of 2000, the REP had created 4,556 restaurants, 18,985 grocery shops, 2,247 laundry shops, 7,037 tailoring shops, and 1,694 micro-enterprises all over rural Bangladesh.

BRAC’s Micro Enterprise Lending Assistance (MELA) targets those who have progressed from absolute poverty to relative poverty but are still not capable of accessing bigger loans from formal financial institutions. The basic objective of this program is to stimulate growth of small enterprises in rural and semi-urban areas. Loans under MELA are on average 10 times larger than BRAC’s micro-finance loans. Since its inception in 1996, MELA has disbursed US $14 million to 7,665 borrowers. The repayment rate in this program is 99 percent.
BRAC established the Program Support Enterprise to provide input and marketing support to the rural population, particularly women. To date, seven ‘aarong’ (village market) shops have been created to sell products made by rural artisans and craft persons to urban consumers. Enterprises set up by the program include: seven prawn and fish hatcheries, five poultry farms, five poultry feed mills, two seed processing plants, three sericulture farms, one food and dairy project, one cold storage and one bull station.

BRAC has also started an Urban Program (BUP) that focuses on urban slums. It has six components: Economic, Health, Non-Formal Primary Education, Environment, Advocacy and Effective Service Delivery.

Training for capacity development

BRAC places considerable importance on human resource development among the poor, with 12 large training facilities in different parts of the country. Among other training, BRAC has designed a new training course for capacity development of NGO leaders and senior/middle managers; also open to NGO leaders and managers from different countries of Asia and Africa.

Impact of BRAC’s poverty reduction interventions

BRAC has been involved in poverty alleviation for close to three decades. Over this period, various kinds of strategies and operational mechanisms have been developed, reaching about 3.9 million poor people, of which 96% are women. Since only one member of a family is allowed to join the village group, this essentially means 3.9 million families are covered. Taking the average family size to be five persons, a total of more than 16.5 million are benefiting from BRAC’s microfinance and poverty alleviation program alone. Another 31 million people benefit from BRAC’s health programs and 1.1 million children participate in non-formal primary education programs. Impact evaluation has clearly indicated that a large number of the poor covered by BRAC’s programs have crossed the poverty line and have been empowered socially and economically:

- 85 percent of BRAC members received loans and 80 percent of these loans were used for productive investment, assets purchase and housing.
- Results of data on incidence of poverty, poverty gap and severity of poverty show that 52 percent of households in areas covered by BRAC and 69 percent of non-BRAC households were below the poverty line (estimated at taka 6896 (US $115) per person per annum).
BRAC member households had 50 percent higher net-worth than non-BRAC members. Net worth is the sum of assets and savings, less outstanding loans.

Average per capita calorie consumption and total food and non-food expenditure were significantly higher among BRAC member households.

Primary school enrolment was significantly higher among BRAC member households.

Around 24 percent of BRAC and 9 percent of non-BRAC households have sanitary latrines. The rate of contraceptive use is 40 percent and 27 percent, respectively, for BRAC and non-BRAC households (Muazzam, 1998).

A recent research study tried to estimate the contribution of BRAC programs to the gross domestic product (GDP) of Bangladesh. The study found that BRAC contributed 0.7 percent to GDP in 1995, rising to 1.15 percent in 1998 (Mallick 2000:1). This compares to the 1.1 percent of Bangladesh’s GDP contributed by the Grameen Bank, in 1996 (ibid, p.2).

**Extreme poverty**

The success achieved so far has boosted the hopes of all partners in development that extreme poverty and chronic poverty in Bangladesh can be eradicated. The extremely poor who make up to 15 percent of the population can not be reached by existing poverty alleviation interventions for a number of reasons: they do not join microfinance programs, for example, because they feel too poor to bear the risk of a loan, they have no capacity or experience to put the money to judicious and productive use and they will be unable to service a loan. Based on their realities of their physical, social and psychological conditions, BRAC has designed a new pilot program to target this highly disadvantaged group with support from several bilateral and multilateral donors at a cost of more than US $40 million over five years.

**Some Lessons Learned**

Widespread poverty remains the most persistent and urgent problem in South Asia. Over the past five decades there have been successive shifts in development paradigms in Bangladesh and other South Asian countries. Agriculture still remains the dominant sector in almost all countries in the region and the vast majority of the population depends on agriculture, directly or indirectly.
This reality suggests that rural poverty reduction is largely an outcome of agricultural growth and the creation of employment within the farm and off farm activities. Gandhi often said: “India is poor because rural India is poor. Rural India is poor because rural people are drastically underemployed.” This has been clearly established as an axiomatic truth by the experiences of rural development in South Asia during the past decades.

The people and government of Bangladesh have rich experience in rural development and poverty alleviation. Experience suggests that it is necessary to go beyond the impact of growth and have a clear understanding of the issues that are relevant for the poor at the grassroots level. Experience also demonstrates that the poor are capable of solving their own problems and can contribute substantial resources on their own, if opportunities are provided. People have to be placed at the center of development and they will take action to change things when they are convinced that it will do them good. Only by winning the confidence of the poor and sensitizing them about their capabilities and rights, can successful poverty alleviation activities be launched.

Over 60 percent of Bangladesh’s labor force still depends on agriculture. Gandhi, with his profound understanding of rural life, had pinpointed employment creation in the rural sector as the solution to rural poverty. Agricultural development in the form of increased cropping intensity, crop diversification and use of improved technology can enhance productivity and create employment in the farm sector. In the past three decades, there has been increased coverage of irrigation and seed-fertilizer technologies, which have helped attain near self-sufficiency in food grain production. The sector, however, requires greater investment to foster growth and create employment for landless wage laborers. Land and agrarian reforms can widen the scope of economic development for millions of landless and marginal households in Bangladesh and thereby reduce poverty.

To be able to tackle poverty in all its forms, particularly extreme poverty, it is important to create a policy environment that promotes pro-poor growth. Economic growth policies, if not targeted and streamlined in the right direction, can lead to increased inequalities in income distribution. A pro-poor growth policy should, therefore, involve the following principles:

- Economic development should generate income and employment for the poor to prevent further impoverishment. When formulating economic policy, top priority must be given to achieving full employment, with emphasis on labor-intensive technologies that increase human skills and generate income. Key priorities should include providing the proper environment for small-scale agriculture, micro-en-
terprises and the informal sector – areas on which most of the poor depend for their livelihoods.

- Ensuring access of the poor to critical economic assets such as land, credit and housing. The poor must also be provided universal access to education and essential health care services to cover primary and reproductive health care, family planning, safe water and sanitation. Health care services are of critical importance, especially for women.

- The process of environmental degradation must be reversed, specifically on the marginal lands where most of the poor live.

- Social development programs such as old age pensions, insurance, formal and informal social safety nets, periodic revision of minimum wage for agricultural laborers on the basis of cost of living, and policies to improve labor standards and labor mobility, are all essential to enable the extremely poor to raise their living standards.

Equally important in poverty alleviation is an active State committed to eradicating poverty, providing the proper environment for broad political participation of the poor through an effective local government system, and creating various partnerships for pro-poor growth. The State should ensure the transparent use of public funds, encourage growth of the private sector, promote effective delivery of essential services and, most importantly, establish the rule of law so that the poor can easily access the judicial system.

Mortality and morbidity rates among the poor are quite high because of their limited access to medical care. A single period of illness not only deprives a poor person of income but also erodes a large part of a household’s microscopic savings or forces it into further debt. Provision of health care support should be an integral part of any poverty alleviation program.

Pro-poor policies and other State support are of crucial importance in a country where almost half of the total population lives in poverty. Macro-policies should be designed to promote people’s participation in the development process and motivate the poor to organize themselves.

NGOs have proved that they can successfully organize the poor, motivate them for self-development and support them with training and microfinance programs to get out of the poverty trap. This pioneering role of NGOs can be further strengthened to establish accountable governance for accelerated poverty alleviation by forging effective NGO-government partnerships. Modalities and specific arrangements vary by country but through these alliances it is possible to achieve the goal of a world free from hunger, malnutrition, diseases and poverty.
Conclusion

Poverty alleviation is about enabling the poor to have sustainable livelihoods and improving the quality of their lives. While this principally calls for employment/income generation, these programs alone are often not enough to eradicate poverty. Rights-based access to education and job opportunities, gender equity, improved health and nutrition, a sustainable natural environment, social justice, legal protection, and broader social and political freedoms are also important.

In developing countries a disproportionately large number of the poor live in rural areas; much of urban poverty is also the product of rural poverty. Poverty may owe its origin to different historical causes and circumstances as well as to diverse socio-economic-cultural constraints but the manifestations of poverty are the same everywhere. Unemployment, under-employment, hunger, malnourishment, diseases, illiteracy, premature aging and deaths, and unhealthy and poor dwellings in undesirable environments are the telltale signs of poverty. Women and children are the most common victims of poverty everywhere.

Poverty is thus like a hydra – a monster that can be subdued only by a simultaneous attack on the social, economic and environmental aspects of the day-to-day life of the poor. Even the best-designed policies and projects for poverty alleviation often cannot attain their objectives because the poor are not in a position to influence policy formulation or to ensure pro-poor budgetary interventions. Government policies ostensibly formulated to benefit the poor end up creating financial and other advantages for the better off. Against this backdrop, NGOs in Bangladesh have been working to organize and raise awareness among the poor, provide education, healthcare, micro-credit for employment and income generation and life-saving support in natural calamities. NGO programs almost always have special emphasis on women, the environment and the development of human resources. BRAC’s experience of more than three decades has demonstrated that sound poverty alleviation programs can be implemented with reasonable effectiveness. Starting in 1972 as a small local NGO, it is now one of the largest national NGOs in the world, with more than 25,000 full-time and another 35,000 part-time employees and a budget of US $132 million. Around 76 percent of this budget is generated by BRAC itself. BRAC’s story is one of success though not without many frustrations and failures on the way. But this is a valuable experience for designing poverty alleviation programs in other countries with appropriate modifications to suit local and specific needs.
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PART 2

Poverty Reduction Programs and Rural Development: Diversification of the Rural Economy
CHAPTER 6

The impact of non-traditional crops in Northeast Brazil on small farmers and rural wageworkers

By Octavio Damiani*

Introduction

This chapter analyzes the role of the public sector in the introduction and growth of non-traditional, high-value irrigated crops in a semiarid poor region, and the effects of these new crops on small farmers and rural wageworkers.1 It focuses on the economic transformation of Petrolina-Juazeiro, compared with two other regions of irrigated agriculture in the São Francisco River Basin in Northeast Brazil: the Baixo São Francisco (states of Sergipe and Alagoas), and the North of Minas Gerais.

Northeast Brazil, a 1.5 million sq. km region (18% of the country’s area) with poor soils, semiarid climate, and periodic droughts, has long been viewed as Brazil’s foremost “problem area”. During the 1990s, Petrolina-Juazeiro became the country’s most important producer and exporter of high quality fruits and vegetables. The main crops include table grapes and mango that are sold fresh to Europe and the United States, and other crops for the domestic market, including banana, coconut, guava, passion fruit, melon, industrial tomato, watermelon, and onion.

Several authors analyzing cases of non-traditional export crops (NTECs)2 in Latin American countries have stressed their “exclusionary” characteristics, meaning that land distribution and access of the rural poor to stable employment often fell.3 By contrast, small tenants in Petrolina-Juazeiro have increasingly focused on high-value, perennial crops both for export

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1 At the time of writing, Octavio Damiani was a Rural Development Consultant (World Bank, IDB, IFAD and FAO).

2 This paper is based on dissertation research whose results are presented in Damiani (1999). The research was part of a larger joint research project of the Massachusetts Institute of Technology and the Bank of Northeast Brazil of which Prof. Judith Tendler was the principal investigator.

3 Non-traditional export crops (NTECs) include crops that used not to be exported, even though farmers frequently grew them for selling in the domestic market. In contrast to traditional export crops like wheat and corn, NTECs comprise mainly crops like fruits, vegetables, and organically grown crops characterized by their high value and quality.

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and the domestic market, decreasing their annual traditional crops. In addition, several authors have argued that NTECs have led to negative effects on wage workers as a result of mechanization of tasks, higher seasonality of labor demand, low wages, poor working conditions, and limited influence of labor unions. In contrast, the growth of irrigated agriculture in Petrolina-Juazeiro was accompanied by widespread positive effects job creation, increased wages and improved labor standards, including the enforcement of prohibitions on child labor and better safety and health standards.

The focus of this paper is how the three regions fared differently, despite similar investment by the Brazilian government.

**Petrolina-Juazeiro**

The Petrolina-Juazeiro region includes seven municipalities in the states of Pernambuco and Bahia, with an area of 53,000 sq. km and a population of 510,000 inhabitants. Until the 1960s, its economy was based on low productivity agriculture that included mainly cotton, livestock, and subsistence crops (corn and beans). Land tenure was highly concentrated, with large landowners producing low-productivity livestock in natural pastures, and sharecroppers—who were most of the rural poor—living in miserable conditions and growing cotton and subsistence crops, paying a proportion (usually half) of the gross production to the landowner.

This system of production was greatly affected by investments in irrigation infrastructure that federal government agencies started in the 1960s. In the late 1940s the federal government created several agencies to promote the development of the São Francisco River Basin. Among them, the most important was the São Francisco Valley Commission (*Comissão do Vale do São Francisco*, CVSF), created in 1948, later transformed into the São Francisco Valley Development Agency (*Companhia de Desenvolvimento do Vale do São Francisco*, CODEVASF) in 1974. These agencies not only constructed water reservoirs, pumping systems, and delivery canals, but also expropriated lands appropriate for irrigated agriculture and created “irrigation perimeters,” each of which served to irrigate between 3,000 and 20,000 hectares of land. In these irrigation perimeters, they divided the land into plots, built on-farm irrigation infrastructure (internal pumping, pipelines, sprinklers, and drainage systems), social infrastructure (schools and health posts), and housing. Once they finished with these works, they leased the developed land to producers and carried out the opera-
tion (water distribution and collection of water fees) and maintenance of the projects. By 1996, CODEVASF had built six irrigation projects in Petrolina-Juazeiro with close to 44,000 hectares of irrigated lands including more than 200 agricultural firms and nearby 2,200 small farmers.5

Partly as a result of these irrigation investments, the economic structure of Petrolina-Juazeiro changed dramatically. By 1996, agriculture was dominated by high-value crops, including table grapes and mango for export and a wide range of crops mainly for the domestic market—banana, coconut, guava, passion fruit, melon, industrial tomato, watermelon, and onion, among others. In addition, small tenants in irrigation projects not only grew a wide range of high-value crops; they also focused on high-value, perennial crops. Furthermore, yields had been increasing substantially both among large and small producers.

Widespread positive effects on the creation of jobs accompanied growth of irrigated agriculture in Petrolina-Juazeiro, increase in wages, and improvement of labor standards, including the enforcement of prohibitions on child labor and better safety and health standards. By 1996, irrigated agriculture in Petrolina-Juazeiro employed nearly 40,000 wage-workers (30 percent of the rural labor force in the region), out of which 29,000 (72%) worked in the two main non-traditional export crops (NTECs), namely table grapes and mango. An unusually high proportion of 60 percent of the labor force directly involved in agricultural production was permanent and 40 percent were women. Rural workers (both in crops for export and the domestic market) received wages substantially higher than the legal minimum wage in Brazil (21.7% higher by January 1998), also higher than the average wage of most northeast rural workers. In addition, most workers received higher wages for overtime and night work (50% and 80% respectively). In contrast to most northeast rural workers, they were registered and received fringe benefits (social security and medical insurance) that represented about 50 percent on top of their wage.6 Two thirds of workers were trained in a variety of skills, including managing irrigation equipment, fruit packing, pruning trees, and they receive premiums for productivity. Lastly, rural wageworkers in Petrolina-

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5 By 2001, the irrigated areas reached 46,300 hectares due to new investments in infrastructure that CODEVASF carried out in the late 1990s in one of the irrigation projects (the Senador Nilo Coelho project). In addition to agricultural firms and small farmers, the newly incorporated irrigated areas included 660 hectares in plots to be distributed among 110 professionals specialized in agricultural sciences.

6 Rural workers’ unions in Petrolina-Juazeiro had been able to negotiate wage increases that increased their minimum wage above the Brazil’s legal minimum every year since 1994, year in which they obtained a minimum wage 10 percent higher than the legal minimum.
Juazeiro had gained a number of important improvements in labor conditions, such as the right to have bathroom facilities and clean drinking water in the workplace and transportation within the farm and from the workplace to their homes. Improvements in wages and labor conditions neither led growers to mechanize their crops, nor jeopardized their capacity to compete in the domestic and export markets, suggesting that revenues from increased production were greater than costs. Such favorable conditions in employment, wages, and labor conditions attracted workers from all over the Northeast of Brazil to Petrolina-Juazeiro, turning it into one of the few regions in the Northeast with a net rate of in-migration rather than out-migration.7

The Baixo São Francisco

The Baixo São Francisco comprises a 33,000 sq. km area in both sides of the São Francisco River between the Paulo Afonso hydroelectric power plant in the state of Bahia and the Atlantic Ocean. It includes 47 municipalities of the Northeast states of Alagoas and Sergipe covering 11 percent of their area. CODEVASF implemented six irrigation projects in the Baixo São Francisco since the early 1970s, covering more than 10,400 hectares of irrigated lands.8 These projects cover areas of 11 predominantly rural municipalities (9 of Sergipe and 2 of Alagoas). The two main cities are Propriá and Penedo, located 170 kilometers from Maceió and 150 kilometers from Aracajú, capital cities of the states of Alagoas and Sergipe respectively. The region comprises lowlands, part of which used to remain covered by the São Francisco during part of the year.

The Baixo São Francisco shared with Petrolina-Juazeiro many similarities in its economic and social characteristics. Land tenure was highly concentrated before CODEVASF started to build its irrigation projects in the early 1970s. The rural economy was based on the production of beef cattle in natural pastures by large landowners, while small tenants usually grew rice in the waterbeds in sharecropping arrangements with the large farmers. Rice had become the main crop in the region and had led to the establishment of numerous small processing facilities in small towns.

In spite of the investments that CODEVASF carried out in irrigation infrastructure, the Baixo São Francisco presented substantial differences when compared with Petrolina-Juazeiro with respect to the performance

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7 While the population of Petrolina-Juazeiro more than doubled between 1970 and 1990, it increased by 50.1% in the states of Pernambuco and Bahia as a whole.
8 By 2001, CODEVASF was in the final stages of implementation of a new irrigation project named Marituba, which will increase the irrigated areas in 3,136 hectares.
of agriculture and the characteristics of the rural labor market:

a) Farmers in the *Baixo São Francisco* specialized in growing rice of low quality for the domestic market.

b) Average yields of rice in the *Baixo São Francisco* have been lower than the average for Brazil and the Northeast region.

c) Farmers in the *Baixo São Francisco* sold their production in markets that were not demanding in quality and had been slow to adopt new technologies.

d) Irrigation in the *Baixo São Francisco* used mainly family labor and hired mostly temporary workers during the harvest season. In addition, wages were lower than in Petrolina-Juazeiro, most workers were not registered and did not receive fringe benefits, working conditions were poor, and workers did not gain through negotiations with growers.

### The North of Minas Gerais

The north of Minas Gerais comprises the irrigated lands in the upper part of the São Francisco River Basin, covering 126,000 sq. km. CODEVASF’s irrigation projects are located in rural municipalities, the largest being Pirapora and Janaíba. By 1996, CODEVASF had built four projects for irrigating more than 34,000 hectares of land.  

Although CODEVASF made heavy investments in irrigation infrastructure, the north of Minas Gerais shows important differences with both Petrolina-Juazeiro and the *Baixo São Francisco*:

a) Rather than specializing or diversifying, farmers most often grew a mix of a few perennial and annual crops, mainly banana, with substantially smaller areas of beans, corn, grapes, mango, and watermelon.

b) Farmers in the North of Minas Gerais produced mainly grapes and banana of intermediate quality levels, good enough for the demanding markets in the cities of Belo Horizonte and Rio de Janeiro, but often not good enough to export.

c) Irrigated agriculture in the North of Minas Gerais created a substantial amount of jobs. However, a high proportion of these workers were temporary and unskilled. They often earned the legal minimum wage, did not receive higher overtime wages, were not registered, and did not receive fringe benefits. In addition, working conditions were poor.

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9 In 2001, the total irrigated area in the North of Minas Gerais remained unchanged.
poor and workers did not enjoy the rights of their counterparts in Petrolina-Juazeiro.

The Role of the Public Sector

The explanations from analysts and the conventional wisdom in Brazil about the transformation of Petrolina-Juazeiro have varied greatly. The most popular explanations have been the following:

a) Many authors have viewed the transformation of Petrolina-Juazeiro as a result of the heavy investments of the federal government in infrastructure (roads, electrification, and mainly irrigation).10

b) In contrast to these authors, other analysts tend to have a negative perception about the role of the State. In their view, the transformation of Petrolina-Juazeiro was the result of successful private sector initiatives. There are several reasons for criticism of government investment in irrigation. World Bank evaluations have argued that government agencies implementing irrigation projects were frequently paternalistic and too slow in transferring operation and maintenance of irrigation infrastructure to associations of beneficiaries.11 An important portion of the Brazilian literature analyzing government irrigation policies has also been critical, arguing that government-sponsored projects were too expensive and that most of them had little impact on improving the living standards of the rural population because they were poorly managed and focused on traditional crops (corn and beans) rather than high-value crops.12

c) Brazilian policymakers and economists in government positions have emphasized the positive role played by the implementation of “market-friendly” policies, mainly stabilization measures, in providing an appropriate environment for private firms to invest and innovate.13 These measures, which the federal government implemented since

13 Multilateral and bilateral donors have widely promoted the application of “market friendly” policy packages since the middle 1980s in order to revitalize the economies of developing countries and promote exports. For arguments favoring these policies, see Stiglitz (1989) and World Bank (1993b & 1996). For arguments that relate the emergence of NTAEs to the application of these policies, see Jaffee (1993). For the Brazilian case, see Loiola and Uderman (1993).
1994, may have lowered costs for private firms in Petrolina-Juazeiro and other regions of Brazil and increased their possibilities to compete in the international market.

d) While a few analysts have focused on the politics of Petrolina-Juazeiro, the conventional wisdom in Brazil has given a key role in the success of the region to the presence of a strong local and “progressive” leadership. According to this interpretation, members of a prominent local family (the Coelhos) occupied key positions at the municipal, state, and federal level, and were able to attract both heavy federal investments in irrigation and private firms to the region. By contrast, other regions in the Northeast lacked this kind of “progressive” leaders; instead, local elites usually struggled to get the benefits from government support and were associated with clientelistic practices in the use of public funds.

e) Finally, some analysts have viewed the transformation of Petrolina-Juazeiro into a producer of non-traditional export crops as a natural result of the globalization process. The change in consumers’ patterns in the developed world towards an increasing consumption of fresh fruits and vegetables, and the comparative advantages of Petrolina-Juazeiro to produce them in the United States and European counter season, would be the driving forces of the economic transformation of the region.

This chapter argues that the key role of the state consisted of federal government agencies applying innovative practices in four major areas: 1) the management of large-scale irrigation investments, including the type of beneficiaries selected, the management of subsidies to irrigation, and the pressures on growers who received subsidies to perform well; 2) the relationship with growers’ associations to solve collective action problems associated with exporting; 3) the introduction of high-value crops and new technologies among small farmers in irrigation projects; and 4) wage negotiations between growers and rural wage workers.

An Overview of Early Government Intervention

The intervention of the federal government in the São Francisco River started in the 1940s and concentrated for two decades on investing in basic infrastructure and on extensive research on the possibilities of irrigated
agriculture. By 1994 the São Francisco River Hydroelectric Company had built several hydroelectric power plants, which generated 14 percent (34 billion KW/hour) of the electric power produced in Brazil. Meanwhile, research sponsored by the São Francisco River Basin Commission produced detailed studies on the potential of soils for irrigated agriculture, determining that 3 million hectares of land were appropriate for irrigation. Basic infrastructure included roads, schools, health posts, and electrification infrastructure in small cities and towns built as a result of pressures from local elites all over the São Francisco River Basin.

After concentrating on agricultural research and basic infrastructure for more than a decade, CVSF shifted in the 1960s towards investing in large-scale irrigation, influenced by a new and powerful agency that the federal government created in 1959: the Superintendence for the Development of the Northeast (Superintendencia para o Desenvolvimento do Nordeste (SUDENE)). SUDENE represented a new approach to dealing with the problems of the Northeast region, which had focused since the early 1900s on struggling against unemployment and poverty in rural areas through emergency employment programs. Among other programs, it started to promote research on the possibilities of large-scale irrigation and of different crops and crop varieties.

Recife, Pernambuco’s capital city and the main industrial center of Northeast Brazil at that time, was experiencing problems with the supply of food. SUDENE negotiated a project with the Food and Agriculture Organization (FAO) to study the possibilities of irrigated agriculture in the lower-middle basin of the São Francisco River, close to Recife. SUDENE asked FAO to analyze the feasibility of large-scale rather than small-scale irrigation, as specialists from SUDENE firmly believed in two of the most influential theories at that time: a) that investments in irrigation infrastructure for water distribution were characterized by economies of scale; and b) that concentrating investments in a number of selected places rather than dispersing them was a more efficient government intervention because it would lead to “growth poles”.

FAO’s research produced a detailed mapping of the region’s soils and recommended several places to establish large-scale irrigation projects, pointing out to Petrolina-Juazeiro as the most appropriate region for three reasons:

1. Petrolina-Juazeiro was relatively close to Recife (630 kilometers).

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15 For a detailed account of CHESF’s interventions in electric power infrastructure, see CODEVASF (1991).
b) It had a much larger concentration of soils appropriate for large-scale irrigation (a total of 270,000 hectares) than regions upstream and downstream, where areas of lands with potential for irrigation were smaller and more disperse.

c) That portion of the São Francisco River had fewer problems with alternative water uses than downstream and upstream, where CHESF had either completed or had plans to build several electric power plants.

In addition to the views and studies of SUDENE, new irrigation policies that started to be implemented in the late 1960s also were very influential in the type of irrigation investments promoted in Petrolina-Juazeiro. A national plan to promote irrigation (the Pluriannual Irrigation Program—PPI) was approved by the federal government in 1971.17 The PPI considered irrigation one of the main instruments to promote the economic transformation of the Northeast and made some important definitions that would determine the nature of irrigation interventions by different government agencies.18 The most important were:

a) Because there was no tradition of irrigation in the Northeast, farmers would be reluctant to invest in irrigation. For this reason, GEIDA suggested that the state had to participate actively in promoting irrigation.

b) The PPI stated that federal government investments in irrigation infrastructure had to be large-scale and concentrated in a limited number of places rather than small-scale and scattered in a large number of places.

c) The PPI appointed SUVALE and the National Department Against the Drought (DNOCS) as the two federal government agencies in charge of implementing irrigation policies. Both agencies focused on carrying out large-scale irrigation projects. While SUVALE concentrated only in the São Francisco Valley, DNOCS worked in the entire northeast semiarid zone except for the area under SUVALE’s authority. Also, DNOCS emphasized social objectives, such as employment generation among the rural poor and decreasing their migration to urban areas, while SUVALE had a more mixed mission that combined poverty alleviation with promoting economic development through the creation of growth poles based on irrigated agriculture.

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17 See GEIDA (1971).
18 The federal government also approved the Law No. 6662 on June 25, 1979, often known in Brazil as the “Irrigation Law”. The “Irrigation Law” contained general definitions about the objectives of national irrigation policies and the government agencies in charge of implementing them.
Finally, the PPI defined that while DNOCS’s projects could include only small farmers, SUVALE’s could also include medium-size and large firms. These firms, the PPI argued, were likely to bring capital and new technologies.

The subsidized government-sponsored irrigation schemes played a crucial role in the economic transformation of Petrolina-Juazeiro in many ways. These irrigation schemes were established at a time in which producers from Petrolina-Juazeiro and other regions were not interested and did not even believe that irrigated agriculture could be successful in the semi-arid Northeast region. Thus, they had a crucial demonstration effect, showing that irrigated agriculture had a great potential lowering the risks perceived by firms investing in Petrolina-Juazeiro. In that way, “public irrigation” eased the way for the later development of irrigation on private lands.

**The Management of Large-Scale Irrigation Investments**

Although investments in irrigation infrastructure were essential to the modernization of agriculture, they do not fully explain how Petrolina-Juazeiro turned into a successful exporter of non-traditional agricultural products. It was the way in which CODEVASF managed large-scale irrigation schemes that was substantially different than in the north of Minas Gerais and the Baixo São Francisco.

CODEVASF applied these innovative principles in the management of its irrigation projects in Petrolina-Juazeiro, but little or not at all in the other two regions:

a) **Mixing medium-size firms and small farmers.** CODEVASF established a mix of former landless and medium-size agricultural firms. It did this extensively in Petrolina-Juazeiro, much less so in the North of Minas Gerais, and not at all in the Baixo São Francisco.¹⁹

Small farmers were selected from landless people and they received 6 to 12 hectares of land appropriate for irrigated agriculture per family, as well as farm-level infrastructure (pipelines, sprinklers, and drainage system) and housing. Since payments were not enforced until fifteen years after project construction—a period in which inflation was high—small farmers ended up paying highly subsidized prices. The agency also provided small farmers with subsidized water

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¹⁹ Only a few agricultural firms had established in the North of Minas Gerais by 1996. By 2001, new efforts that CODEVASF carried out in the late 1990s succeeded in attracting firms, which occupied 238 plots and 9,800 hectares (28.7% of the total irrigated area in the region).
for irrigation and a whole set of free services, including training in crop and irrigation technologies and agricultural extension.

Firms also received plots in Petrolina-Juazeiro: between 50 and 100 hectares appropriate for irrigated agriculture. Firms had to compete for specific areas of land in public biddings, and the land did not include any farm-level irrigation infrastructure, so firms had to build it themselves. However, CODEVASF supplied them with water for irrigation and charged the same subsidized water fees as to small farmers.

Agricultural firms ended up playing a key role in the transformation of Petrolina-Juazeiro in many ways:

i) They were the key players in introducing crops unknown in the region—especially those for export (mango and table grapes)—as well as new crop and post-harvest technologies, such as the use of chemical products to control the harvest season in mango and the classification of fruits according to quality.

ii) They played a major role in opening new domestic and export markets for the new crops, bringing connections and experience in solving common problems of exporting.

iii) They trained their workers in specialized tasks that required skills that the labor force did not have at that time, such as the management of irrigation equipment and pruning in crops like mango and table grapes.

One of the most important firms first established in Petrolina-Juazeiro was COTIA, a São Paulo-based cooperative that became the largest agricultural cooperative in the world in the 1980s.

b) **Picking winners.** CODEVASF did not provide across-the-board subsidies to firms. Instead, it selected firms from outside Petrolina-Juazeiro—mainly from states of Brazil’s southeast—which had know-how about crop technology and marketing and attracted them to its irrigation projects with subsidized land and irrigation infrastructure. For example, during the 1970s CODEVASF attracted the largest tomato-processing firms from São Paulo, promising them that the agency would encourage small farmers to negotiate contracts with them and would encourage the Bank of Northeast Brazil to negotiate a special credit line to finance small farmers who grew industrial tomatoes and who signed a contract with any of the tomato-processing firms.

c) **Introducing competition for subsidies.** CODEVASF combined targeted subsidies with the practice of making firms compete for subsidies.
Agricultural firms interested in taking part in CODEVASF’s irrigation projects in Petrolina-Juazeiro had to bid for specific plots of land. One of the most important documents that firms had to present in the bidding process was a project proposal that detailed the type of crops that they would grow, the technologies that would apply, the employment that they would generate, and the markets in which they would sell.

d) Disciplining firms. CODEVASF provided subsidized land and irrigation infrastructure to medium-size firms, but required at the same time that they meet production targets, withdrawing subsidies, fining them, or forcing them to leave when they did not comply. In addition, although many firms wanted to buy the land, CODEVASF would sign only lease contracts with them. Only after a five or ten-year period, and upon the condition that a firm had proven to be a good producer, would it become eligible to purchase the land.

e) Encouraging turnover in irrigation projects. Most analysts of land reform and irrigation in Brazil and elsewhere view turnover in land settlements negatively, often using it as an indicator of failure. For that reason, government agencies dealing with land settlements elsewhere prohibited small farmers in their projects to sell the land. In contrast, CODEVASF allowed and even encouraged turnover in Petrolina-Juazeiro both among small farmers and firms.

Joint Efforts of Government Agencies and Growers’ Associations

Exporters of high quality fresh fruits often need to carry out tasks that require a high degree of compliance from all producers in a region, such as enforcing minimum quality standards, avoiding harvest concentration, and controlling pests that may decimate the crops or even jeopardize the access to some foreign markets. While exporters need to act jointly in order to solve these constraints, they often fail because of several problems associated with collective action.

In Petrolina-Juazeiro, exporters faced problems of collective action in the mid-1980s, when they started to sell melon in Europe and failed to jointly agree on meeting quality standards. Melon had become one of the most important crops in the region, occupying about 3,000 hectares (10 percent of the area with irrigated crops) by 1986. Small farmers from several irrigation projects accounted for about 70 percent of the total area and medium-size firms for the remaining 30 percent, with members of the COTIA cooperative accounting for 10 percent of the total. COTIA had started to purchase melons from small farmers and sell them in São Paulo...
and Europe, using its own brand name. The good prices of melon and the initial success of growers who sold through COTIA led both small farmers and firms to expand the areas with melon.

Despite rapid success, melon exports soon confronted serious problems: With the incorporation of new producers (most of them small farmers), the technology of production (e.g., varieties used, application of fertilizers and pesticides, etc.) varied greatly among producers, so the quality of production became very diverse, with melon of different types, sizes, and taste. In addition, the presence of many buyers—in contrast to the previous monopsonistic presence of COTIA—led to additional problems. Many of the new exporters became too “flexible” with quality standards, partly because they had links neither with the region nor with the marketing of melon.

As a result, the melon prices received by producers fell sharply in 1986, leading to the collapse of the crop and to default among a high proportion of the small farmers in government-sponsored irrigation projects. The area with melon in Petrolina-Juazeiro fell dramatically in 1987 and has never recovered to more than 1,200 hectares (only a third of the area in 1986) since then, in spite of CODEVASF having established the Senador Nilo Coelho project, which included more than 15,000 additional hectares.

This negative experience provided useful lessons to exporters and government agencies, pushing them to undertake solutions to prevent the same problems with other crops. Having lost its monopsonistic position, COTIA had to be concerned not only with the quality of its own shipments, but also that of the other exporters. This required working with other exporters to develop a way for everyone to meet minimum quality standards. It was also essential to improve the quality of production and solve the problem of a scarce skilled labor force. COTIA and other firms reached the conclusion that they should become more involved in directing farmers’ production technology and come to agreements with the other exporters on compliance with clear quality standards in the classification of harvested fruit.

The near collapse of the melon crop also led CODEVASF to explicitly promote the creation of an exporters association. In fact, CODEVASF pushed firms very hard to organize themselves, arguing that they needed an association for at least three reasons: a) to agree on minimum quality standards; b) to collect information and search for export markets; and c) to press the federal government to help fruit exporters.

Responding to pressures from CODEVASF, a small group of firms agreed to create an association in November 1987, later named Valexport. Membership grew, reaching 200 members by 1997, of which 134 were small farmers and 66 were agricultural firms. The association initially represented exporters before federal agencies, collected information about foreign mar-
kets, and worked out a plan to improve the quality of exports. In the beginning, CODEVASF supported Valexport in many ways: a) providing technical assistance for the design of its “statutes”; b) paying the rent of an office in an industrial district and lending furniture and equipment; c) providing one of its technicians as executive manager and paying his salary for one year; d) contracting out a thorough study of the possibilities of exporting different fruits and vegetables to Europe; and e) searching for fairs in Europe to promote crops from Petrolina-Juazeiro and partly financing Valexport stands.

In the next few years, Valexport played a key role connecting firms and farmers from Petrolina-Juazeiro with foreign markets in two ways:

a) Working together with government agencies, Valexport was able to make mango growers comply with a program for monitoring the fruit fly, giving them access to the US market since 1994.

b) Valexport was able to organize the production of table grapes for export, through the “Brazilian Grapes Marketing Board” (BGMB), created in 1992. Valexport ended up coordinating the export of 2,000 hectares of grapes, selling the product under a single brand name (BGMB) for a few years. This production represented 80 percent of the grapes exported from Petrolina-Juazeiro and 70 percent of Brazilian production.

Valexport soon became an independent institution that not only represented the interests of its members, but also demanded better performance from agencies of the federal, state, and municipal governments. Valexport joined associations of fruit growers from the south of Brazil and in 1991 created the Brazilian Institute of Fruit Exporters (Instituto Brasileiro de Frutas, IBRAF), a national association of fruit exporters. IBRAF quickly became the most important organization of fruit exporters in Brazil, having a great influence on federal government policies affecting fruit producers.

Explaining Regional Differences in the Role of the Public Sector

In Petrolina-Juazeiro, local elites strongly supported CODEVASF both at the local and federal levels. By contrast, the agency faced strong opposition in Baixo São Francisco and indifference in the North of Minas Gerais. These interactions shaped the agency’s interventions at the local level and influenced the agency’s subsequent decisions on additional investments in irrigation in each region.

These are the main differences that explain the different outcomes in crop structure, capacity to penetrate new markets, and the dynamics of the rural labor market:
a) **Petrolina-Juazeiro.** CODEVASF received strong support from local elites, who were influential both at the state (Pernambuco) and federal levels. Members of the Coelho family in Petrolina had occupied important positions at the municipal and state levels since the 1940s and the family played an important role in drawing funds from the national budget to the region. The Coelhos viewed investments from CODEVASF as a great opportunity for the economic transformation of Petrolina, which was far and isolated from Recife, and which had trouble generating its own revenues. They strongly supported efforts by CODEVASF to implement innovations in the management of irrigation projects, such as including a mix of landless people and firms and encouraging turnover. Also, CODEVASF did not face any problem when expropriating lands for irrigation projects because of the good prices paid, the low productivity of the land without irrigation, and the low population density.

b) **The Baixo São Francisco.** CODEVASF started to design the first irrigation projects here in the early-1970s. At that time, a system of dams and hydroelectric power plants had been completed upstream on the São Francisco River, including the Sobradinho dam and the Paulo Afonso hydroelectric power plant. As a result, the river changed dramatically, affecting or displacing a large population living along its banks. CODEVASF decided to carry out a number of irrigation projects that benefited mainly families that would be displaced, providing them with land and irrigation infrastructure, while also building infrastructure to prevent floods.

CODEVASF faced great opposition in the Baixo São Francisco both from local elites and the population that would benefit from the irrigation projects. When the agency started to implement the first one in 1973, it expropriated 10,000 hectares of land from a large and politically influential local landowner who strongly opposed it. Meanwhile, the Sergipe and Alagoas state governments remained indifferent to CODEVASF’s projects. They viewed CODEVASF as too powerful and both state governments wanted to avoid the conflicts that the projects were starting to create at the municipal level with powerful local actors.

CODEVASF’s irrigation projects in the Baixo São Francisco also faced strong opposition from the local population, part of which would receive land in the projects. The local Catholic Church started to mobilize the peasants, who distrusted CODEVASF for many reasons. CODEVASF evicted tenants from the land when it started project con-
struction and paid compensations to evicted families, but many of them complained that it was too little to start farming elsewhere. It also became obvious that the irrigation projects would not provide land to all the population living on the expropriated lands. By 1985, CODEVASF had expropriated 24,300 hectares, providing land to only 3,200 of the 10,200 families (31 percent) who had previously lived there. Also, CODEVASF could compensate small landowners for their land, but not sharecroppers, because they did not have titles. Thus, most sharecroppers (72 percent of the total population)—feared they would be left out of the projects and without compensation. Finally, expropriation of lands went very slowly and implementation of the projects was delayed substantially; as a result, evicted tenants faced great difficulties to find alternative sources of income until the project was finished.

It was difficult for CODEVASF to implement the same type of irrigation projects as in Petrolina-Juazeiro. First of all, CODEVASF did not push for alternative crops in the Baixo São Francisco because it did not want to disrupt the existing system of agriculture. Thus, small farmers ended up focusing on the cultivation of rice. Furthermore, the opposition from local politicians, the beneficiary population, and the Church left the agency with little room to maneuver in terms of beneficiary selection. The inability to establish firms in the irrigation projects in the Baixo São Francisco resulted in a lack of actors that could bring new crops and technologies.

c) The north of Minas Gerais. The agency’s work here was met with little interest at the local and state levels. CODEVASF expropriated a relatively small area (around 7,000 hectares) in the early 1970s to build the first projects. This mainly affected two landowners who did not resist because they received a good price for the land. Population density was very low, so the agency did not face the opposition from tenants or local organizations.21

Minas Gerais is a large state with quite a developed industrial sector in Belo Horizonte (its capital city) and a dynamic agricultural sector focused on banana and coffee in the south. For this reason, the state government had traditionally prioritized the south in its investments. The northern part of Minas Gerais, however, is similar to other parts of

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20 Barros (1987) quotes the Propríá bishop as saying that “irrigation up to now has created more social problems than before because it has left the poor without fish, jobs, and land.”

21 The population density in the area was in fact so low that the agency drew most project beneficiaries from other states, such as Bahia (in the Gonutuba and Jaíba projects) and Paraná and São Paulo (in the Pirapora project).
northeast Brazil, with a semi-arid climate, poor soils, and similar poverty indicators. This is why the federal government included the north of Minas Gerais in the SUDENE development programs, which involved mainly tax breaks and subsidized credit for investment in the industrial sector. As a result, the state government prioritized investments in roads and urban infrastructure, rather than investing in irrigation projects in remote areas with bad roads and poor urban infrastructure.

The little interest in the irrigation projects expressed by local and state-level elites led CODEVASF to prioritize its projects in Petrolina-Juazeiro over those in the north of Minas Gerais and it "biased" other key interventions in favor of the former. Interviews with firm owners in Petrolina-Juazeiro who came from other states showed that a substantial proportion had not heard that CODEVASF also had investments in the north of Minas Gerais. Partly as a result of CODEVASF’s preferences, the agency ended up being far more successful in attracting middle-size and large agricultural firms to Petrolina-Juazeiro.

The Incorporation of High-Value Crops and New Technologies Among Small Farmers

The literature analyzing cases similar to Petrolina-Juazeiro in other Latin American countries where non-traditional export crops (NTECs) have been growing steadily has stressed the “exclusionary” characteristics of a growing export-oriented agriculture.22 First, small farmers face difficulties growing high-value crops like fruits and vegetables because these crops usually require considerable credit to cover heavy investments, such as irrigation and mechanization, and to purchase costly inputs like fertilizers and pesticides. Second, small farmers have problems diversifying into NTECs because many of them include perennial crops like grapes, mango, and oranges, which not only involve heavy investments, but also require two or three years to obtain their first revenues. Small farmers growing these crops face difficulties obtaining the income necessary to support their families. Third, some high-value crops like mango are characterized by economies of scale because some tasks like applying pesticides can be more easily mechanized, benefiting mainly larger producers. Also, government policies to promote the application of new technologies, such as subsidized credit or low tariffs for machinery, often favor large-scale

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producers. Fourth, technologies used for growing high-value crops—especially when they are for export and require high quality—are often complicated and require specialized technical assistance. Because small farmers frequently have problems paying for private technical assistance, they have to rely on public extension services that are often ineffective and poorly funded. Fifth, small farmers face great difficulties selling their products because they lack marketing skills and connections, so they depend on middlemen who pay low prices. These problems are even more serious for export crops because foreign buyers are far away and often speak a different language, and selling the products involves a large number of bureaucratic procedures like obtaining permits and paying taxes.

In Petrolina-Juazeiro, CODEVASF and the Bank of Northeast Brazil implemented measures that were effective in helping small farmers introduce non-traditional crops and adopt new technologies, frequently resulting in higher yields than those obtained by the commercial firms that first introduced such technologies. The main public sector interventions were:

a) **Promotion of a sequence of different crops over time.** CODEVASF had a great influence on the crop types grown in the three regions studied here. In Petrolina-Juazeiro—but not in the Baixo São Francisco and the north of Minas Gerais—the agency implemented two different strategies over time: (i) from the late 1960s to the early 1980s it encouraged small farmers to grow annual crops other than beans, it attracted tomato-processing firms from São Paulo to establish in Petrolina-Juazeiro, and it promoted contract farming of tomatoes in collaboration with the Bank of Northeast Brazil, which provided short-term credit to small farmers; and (ii) starting in the mid 1980s, CODEVASF had small farmers introduce perennial crops, mainly banana, mango, and grapes, through programs that provided technical assistance, training, and subsidized credit for investment.

This strategy involved supporting a sequence of crops over time, starting with crops with simpler technology and marketing, and less investment and working capital (annual crops like melon, watermelon, and industrial tomato for the domestic market), and later gradually diversifying into crops that require more complex technologies and marketing, and more capital (perennial crops like table grapes and mango for export). Such a sequence allowed small farmers to learn about irrigation technology, to support their families while growing crops whose first revenues required three years, and to capitalize their farms.

b) **Promoting backward linkages from processing industries.** CODEVASF encouraged backward linkages from tomato-processing industries to
agriculture, negotiating to attract firms from São Paulo to open facilities in Petrolina-Juazeiro. The agency successfully negotiated with two large tomato-processing firms (CICA and ETTI) in 1975-1976 and the tomato industry greatly helped modernize small farmers’ production because they not only purchased tomatoes, but also provided inputs and disseminated new production technologies among farmers. Learning to cultivate industrial tomato also played a crucial role in small farmers’ understanding of irrigation crops—the first step toward growing perennial crops.

c) **Agricultural research on crops appropriate for small farmers.** Government agencies (CVSF in the 1950s, SUDENE in the 1960s, and CODEVASF in the 1970s and 1980s) invested heavily in agricultural research in Petrolina-Juazeiro. This was instrumental in attracting agricultural and agro-processing firms to the region. One of the most important research programs eventually led to the generation of two varieties of industrial tomato, IPA 5 and IPA 6. These new varieties, which started to be used in 1981, soon became the highest quality and best known in Brazil, and were key to attracting the tomato-processing firms that established in Petrolina-Juazeiro in the late 1970s. CODEVASF also researched and promoted production systems adapted by small farmers, who grew high-value crops like mango and banana interplanted with beans and other crops to obtain rapid revenues for some crops while they waited for the slower revenues of the newly-introduced ones.

d) **Mediating the transfer of technology from firms to small farmers.** The Bank of Northeast Brazil played an instrumental role not only in providing credit, but also in mediating the transfer of technology between agricultural firms and small farmers. Both small farmers and firms applying for investment credit had to present project proposals that detailed, among other things, the technology to be applied. When assessing proposals, technicians of the Bank not only required the same technological standards from all proposals, but also made small farmers apply the new technologies proposed by the firms—many of which were unknown even at government research stations and extension agencies.

Although small farmers in Petrolina-Juazeiro were able to incorporate perennial and export crops, they continued to face important problems. First, they often sold their production to middlemen who sold it in the domestic market. Second, they were not able to obtain a high quality production for two reasons: a) the production technology of export crops was often complicated and the extension services emphasized incorporat-
ing new crops rather than improving quality; and b) they had difficulties securing working capital and frequently delayed treatments essential for obtaining high quality.

There were other important problems with the public sector strategy to support small farmers:

a) The cost of supporting small farmers in irrigation projects was very high. First, it involved providing highly subsidized land and irrigation infrastructure. CODEVASF estimated that it spent an average of US$ 13,000 to settle each family in its irrigation projects, including the costs of land and irrigation infrastructure but not the costs of training and extension services that the agency continued to provide for free. Second, the agency tolerated very high default rates in the collection of water fees from small farmers—something it did not do with firms. Default levels fell, however, when project administration was turned over to user associations.

b) The number of small farmers supported by several government agencies was relatively small compared to the number of wageworkers engaged in irrigated agriculture. The five irrigation projects that CODEVASF built in Petrolina-Juazeiro included a total of 2,500 families, quite small if compared with the 29,000 farm jobs provided by the two major export crops—grapes and mango.

The Effects on Rural Wage Workers

High-value crops in Petrolina-Juazeiro were accompanied by job creation, upskilling of labor and improvements in wages and labor standards among rural wageworkers. These factors were involved:

a) The higher demand for labor. In contrast to the previously dominant products—beef cattle and dryland production of crops like manioc, beans and corn—irrigated crops are intensive in the use of labor because they involve technology that requires workers to perform a large variety of tasks, such as handling irrigation equipment, plowing the lands with tractors, applying treatments against pests and diseases, and harvesting. Irrigation not only increased yields, but also made it possible to grow crops in the dry season, thus obtaining several high-value harvests a year.

b) The skills required in irrigated agriculture for export. High-value crops required higher skills from workers. Workers needed more complicated skills than in traditional cattle raising or in dryland crops like
manioc, corn, and beans. Workers had to perform a wide variety of tasks, such as driving tractors to prepare the land, using and maintaining irrigation equipment, and applying pesticides and herbicides. Also, the NTECs required that workers have special skills to improve the appearance of the fruit, and to harvest and pack the fruits with great care in order to ensure high quality. To deal with workers’ lack of experience with irrigation, firms had to train them.

c) The role of rural workers’ unions. The dramatic changes in the demand for labor brought by the growth of high-value crops led to great changes in the views and organizing strategies of rural labor unions. Rural worker federations at the state level, notably the Pernambuco Rural Workers’ Federation (FETAPE), played the dominant role in the Petrolina-Juazeiro region.

With the emergence of irrigation, local rural unions experienced major changes in membership. Small farmers in CODEVASF’s irrigation projects started to take over, becoming the majority in all three regions by the early 1980s. During the second half of the 1980s in Petrolina-Juazeiro, as commercial firms became engaged in irrigated agriculture and hired large numbers of wage workers, these workers became members.

As a result, FETAPE became interested in working more actively in the region, organizing wageworkers in irrigated crops. In 1991, FETAPE started providing organizational skills to the local union in Petrolina and by 1993 the rural unions in the region were able to begin negotiating and signing one-year contracts directly with Valexport (the exporters’ association) instead of with individual growers. FETAPE participated directly in the negotiations. Also, the wage increases and other benefits obtained in the first contract, which were unusual for rural workers in northeast Brazil, improved greatly with each subsequent contract. Some of the most important gains were:

1. By January 1998, the contract set a minimum wage 21.7 percent higher than the minimum set by Brazilian law (equivalent at that time to US$130).23

2. An overtime hourly wage 80 percent higher and an additional 45 percent for night work.

3. A 20 percent higher wage for workers manipulating pesticides and the obligation for employers to give these workers medical exams every six months.

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23 The minimum wage agreed in the first contract was 10 percent higher than the legal minimum.
4 Provision of free transportation between workers’ homes and the workplace, as well as on the farm.

5 A supply of clean water in the workplace, as well as availability of bathrooms.

6 The obligation to have medical equipment and medicines available for emergencies.

7 A free day per month for female workers to attend routine medical exams.

8 A two-month leave for women workers after giving birth and the right to keep their jobs.

9 The obligation for employers to establish day-care centers when they employ more than 20 women.

10 Protection to union leaders from losing their jobs and authorization for the union to work inside the firms.

Union leaders stressed that firms in Petrolina-Juazeiro complied with the agreements much more than in any other region in the Northeast, partly because the rural unions played a key role in monitoring the agreements.

Conclusions and Policy Implications

Government involvement differed in Petrolina-Juazeiro with respect to two other regions of irrigated agriculture in the São Francisco River Basin: the Baixo São Francisco and the north of Minas Gerais. Such differences led to different patterns of agricultural transformation and to different outcomes in terms of wages and working conditions of rural workers. Government investments in infrastructure, especially in large-scale irrigation investments (reservoirs, delivery canals, and land settlement-like irrigation schemes) were an essential first stage in the development of Petrolina-Juazeiro. Without these, outside private agricultural and agro-processing firms would have not established in Petrolina-Juazeiro in the first place. However, the unusual combination of factors observed in Petrolina-Juazeiro makes it highly unlikely that this case could be replicated. In fact, CODEVASF carried out several measures in Petrolina-Juazeiro that could not be implemented in the other two regions; mainly because of the different way its local offices interacted with key local actors (local elites, landless workers associations, the Church). These interactions shaped the agency’s interventions at the local level and influenced the priorities that the agency gave to additional investments in irrigation in each region.
Governments in northeast Brazil or elsewhere should not try to replicate the entire Petrolina-Juazeiro experience. However, it is possible to apply some of the principles of State involvement and the sequence of interventions there:

a) **Picking winners and demanding performance in exchange for subsidies:**
   The provision of targeted subsidies to irrigation infrastructure may be highly beneficial to the economic transformation of poor regions. Subsidies in Petrolina-Juazeiro were aimed at attracting agricultural and agro-processing firms from outside of Petrolina-Juazeiro, which were selected according to their technological and marketing know-how. At the same time, firms had to compete for subsidies. Also, the performance of firms should be monitored and production targets should be demanded in exchange for government support. While this had already been demonstrated in newly-industrialized East Asian countries, the case of Petrolina-Juazeiro shows that this policy can work in Latin America too—even in the Northeast of Brazil, long characterized by clientelistic relationships at the local level. It also shows that these policies apply not only to the industrial sector, but also to the agricultural sector.

b) **Medium-size agricultural firms as key players in the introduction of new crops and technologies:**
   The success of CODEVASF’s irrigation schemes related partly to the practice of including a mix of small farmers and firms—a radical departure from the usual practice of including only former landless farmers who eventually end up growing the usual traditional crops. This shows that in land settlement interventions, explicit efforts should be made to attract firms that can bring innovations and know-how that even government agencies have difficulty accessing. CODEVASF’s practices in Petrolina-Juazeiro suggest that governments should not view their interventions with landless and small farmers as “social”; rather, they should attempt to integrate them with larger agricultural and processing firms.

c) **Applying an “administered” turnover in irrigation projects:**
   The literature about land settlements has a negative view of turnovers, portraying them as an indicator of “failure” or at least low performance. The Petrolina-Juazeiro experience suggests the contrary. Because CODEVASF had very limited ways to push small farmers to perform better—it could evict them only under exceptional circumstances and could not cut off their supply of water—turnover became an unplanned process to improve performance, as those who entered
often had more experience and capital than those who left the projects. While this policy had some negative distributional effects, incoming producers managed their farms more successfully than the small farmers who quit, brought capital, had marketing connections, showed commitment to their farms and to the development of the region, and often provided higher wages and better working conditions to their workers.

d) Engaging in joint efforts with growers’ associations: CODEVASF engaged local producers in joint efforts to build private sector cooperation institutions where farmers could deal with collective action problems and indicate local needs to the government. This not only shows that there is great room for government involvement in producers’ associations to address the collective action problems common in exporting high-value crops; it also demonstrates that government agencies can play an important role in the very emergence of collective action. Governments may provide funds and even personnel with managerial skills to associations, without necessarily making them permanently dependent on government funds or unrepresentative of producers’ interests.

e) Promoting the modernization of small farmers’ agriculture: Most small farmers in CODEVASF’s irrigation schemes in Petrolina-Juazeiro continued to obtain low-quality products in most crops and faced difficulties accessing profitable domestic and foreign markets. However, CODEVASF and the Bank of Northeast Brazil were instrumental in promoting the adoption of high-value crops and new technologies among these small tenants. The experience of these agencies suggests that programs and projects aimed at modernizing small farmers’ agriculture should introduce new crops gradually, allowing farmers to learn with simpler crops, and only later introduce crops with more complex technology and marketing. Also, strategies should not overlook the possibilities of both new and traditional crops in production systems.

CODEVASF also promoted backward linkages from tomato-processing industries, attracting them from the south of Brazil to build facilities in Petrolina-Juazeiro and to initiate contracts with small farmers in CODEVASF’s irrigation schemes. This strategy allowed small farmers to start growing a relatively simple irrigated crop, learn about irrigated agriculture, have a safe market for the product, and have access to inputs and technical assistance provided by the industries. Although the production of industrial tomato has fallen dramatically,
partly due to a new disease, CODEVASF’s strategy shows the effectiveness of promoting backward linkages.

Finally, the unintended effects of the Bank of Northeast Brazil’s procedures suggest ways in which government agencies could promote the transfer of technology from producers who apply the latest technologies to small tenants, in particular, the potential of centralized credit to promote technical change among small farmers, in contrast to the current emphasis on decentralized micro credit. One of CODEVASF’s main objectives in promoting a model of settlement that included a mix of small farmers and medium-size and large firms was to promote technical change among small farmers by having them learn from the experience of large farmers. Although CODEVASF did not carry out any specific intervention to facilitate this, experience suggests that credit and extension agents could become important intermediaries in such a process. Agencies that provide credit could even have more leverage because they could demand the adoption of latest technologies—though they must be careful to evaluate if the technology is appropriate for small tenants. Such interventions are not possible in the currently popular decentralized micro credit schemes.

f) On rural employment, wages, and working conditions: The growth of irrigated agriculture in Petrolina-Juazeiro, and in particular of NTECs, was accompanied by widespread benefits for rural wageworkers, leading to an increase in employment and wages, and to improved labor standards for rural workers. By investing in irrigation infrastructure in a region where farmers had used the land primarily for low-productivity livestock production that used little labor, CODEVASF was directly responsible for the great increase in the demand for agricultural labor. Such positive effects are well known and many authors have pointed out the potential of irrigation investments.

However, the great improvements in wages and working conditions in Petrolina-Juazeiro are a result of the decisive role played by rural workers’ unions at the municipal and state levels. They were able to negotiate with growers’ associations in a way that was not possible in the north of Minas Gerais and the Baixo São Francisco. Workers’ unions were able to obtain improvements for the following reasons:

i) The changes in the labor market tilted the balance of power from growers’ organizations toward workers’ associations. Because skilled labor was in short supply in the northeast, it was easier for unions to negotiate improvements in wages and working conditions.
ii) The Pernambuco Rural Workers’ Federation (FETAPE), with a long experience in organizing rural wageworkers in the state’s sugar-cane zone, provided its organizing and negotiation skills to the local unions. Irrigated agriculture created a large pool of wage-workers, which encouraged FETAPE to step into the Petrolina-Juazeiro region to increase its power and membership.

iii) Improvements in wages and working conditions related partly to non-antagonistic relations between growers’ and workers’ organizations, in contrast to other regions where the relationship between these organizations has been highly conflictive. This was possible partly because CODEVASF unintentionally brought a new economic and social structure by mixing small farmers with agricultural firms in its irrigation projects.

iv) The market characteristics of NTECs had a great influence on the ability of unions to negotiate improvements in wages and working conditions. Because these products reached consumers in Europe and the US who were concerned about the environment and labor conditions, unions used their connections to reach international organizations like the International Labor Organization, warning growers to initiate campaigns in foreign markets if their demands were not met. Growers’ concerns regarding negative perceptions of their products led, for example, to a successful campaign to eliminate child labor.

v) Finally, government agencies at the state and municipal levels played an important role by mediating between growers and workers in contract negotiations and by monitoring growers’ compliance with labor contracts. Political pressure from unions helps explain the active role of the Ministry of Labor in Petrolina-Juazeiro.

These findings suggest that the effects of globalization on the rural poor and the growth of NTECs are not necessarily negative. The promotion of labor-intensive high-value crops, which at the same time require a high proportion of permanent and skilled labor, is likely to strengthen the power of unions and their capacity to negotiate improvements in wages and labor conditions. Governments may greatly influence the effects on labor of local economic growth in unexpected ways. Attracting outside entrepreneurs to establish in a backward region may not only promote economic growth, but also bring new values, institutions, and a less antagonistic social structure. Finally, consumers’ views have great
weight in decisions that firms make with respect to labor and technologies. Governments and NGOs can carry out campaigns to inform consumers and buyers about the effects of different crops on labor. These may have more effect than laws and regulations on the result of negotiations between workers and firms.

References


CHAPTER 7

Production and Export Alliance between Poor Small Farmers and Entrepreneurs in Colombia

By Libardo Ochoa García

Introduction
This chapter presents the experience of a partnership between agricultural producers and various other actors who were able to transform traditional agricultural producers into successful exporters of hot chili paste in the Municipality of Dagua, Cauca Valley, Colombia.

The decision to produce and export hot chili peppers was based on strong market demand for the product and pre-set prices that allow farmers to calculate their profitability.

The development context for agricultural production in Colombia is quite complex. The lack of resources resulting from the current economic recession is exacerbated by the fact that Colombia is usually not eligible—certainly not a high-priority country—for international development cooperation; resource availability to support rural development is very limited. Institutions working in rural development must be very creative to target their limited resources towards high-impact projects.

The Carvajal Foundation decided to give priority to poor rural people who have access to land (natural capital), some infrastructure (physical capital), are motivated (human capital) and have a minimum degree of organization (social capital). The Carvajal Foundation complements their existent endowments with financial capital. The Foundation is conscious that this selection criterion excludes the most marginal groups in rural areas but given the limited resources available for development projects it seems the only viable option.

Description of the Case Study
How the project was conceived

The project responded to the demand for hot chili pepper paste from an export company that had future market contracts in the European Community and the United States. The company was facing supply prob-

* At the time of writing, Libardo Ochoa García was Coordinator for Rural Micro-enterprise Projects, Fundación Carvajal, Colombia.
lems with the medium-size agricultural producers it had been working with and was looking for ways to expand operations and diversify suppliers. The virtue of the project is that it was able to make the connection between the exporting company and a group of small farmers who needed to increase their income and employment alternatives as a way to break free from poverty and economic marginality.

**Stakeholders**

The role of the Carvajal Foundation was to motivate different institutions to participate in the project, complementing each other’s resources to reach maximum results with limited resources. The hot chili pepper paste production and export project is being implemented in the Municipality of Dagua, Cauca Valley Province, Colombia. The main actors are public and private sector agencies and a community-based organization working on rural development projects. Their commitments and responsibilities are as follows.

- **Agriculture Secretariat** of the Cauca Valley Province coordinates actions with the local UMATA (Municipal Technical Assistance Unit) and provides technical agricultural services.

- The **UMATA** from the Municipality of Dagua is responsible for providing extension services and technical assistance.

- **ECOPETROL**, the State-owned petroleum company, provides funds to finance some activities.

- **Hugo Restrepo & Co.** exports hot chili pepper paste; it is responsible for providing certified seeds, transfers technology and commercializes the product in foreign markets.

- Carvajal Foundation is the NGO that coordinates the entire project; it is also responsible for providing managerial training and advises farmers. Founded in 1961, the Carvajal Foundation promotes improvement in the quality of life of rural residents by supporting the educational, social, economic and ecological development of communities through programs that qualify them to take responsibility for their own development.

- **ASOPROCAT** is the community-based organization responsible for the purchase of agricultural inputs, storage facilities, processing of the hot chili pepper, transportation and commercialization of the final product.
The farmers are members of the Association and are responsible for production.

**Brief history of ASOPROCAT**

The community of Atuncela has been a traditional producer of sugar blocks known as *panela*. During the 1980s they started to produce horticultural products and tobacco, followed by tomatoes. Middlemen visited the community to buy tomatoes to be sold at the Buenaventura and Cali markets. The low prices they paid provided incentives for community leaders to organize themselves to commercialize their products directly.

The Agrarian Cooperative of Colombia (CENCOA), an association of coffee growers, came to Atuncela, trained producers and motivated them to create a small farmers’ association to commercialize their own agricultural products. ASOPROCAT was formalized as an association in March 1989 and started to commercialize its products in regional markets, but they did not obtain the expected results. Moreover, some of the leaders mismanaged the collective resources, generating serious conflicts among the membership. ASOPROCAT lost its credibility in the community and among small farmers and was inactive for seven years.

In 1998, the Carvajal Foundation arrived at Atuncela with the idea for a hot chili pepper paste production and export project. The draft project was fully explained during community meetings, but the original proposal was adjusted to the community reality through a participatory approach. The UMATA of Dagua and the Cauca Valley Agricultural Secretariat also participated in the process. The project required strengthening ASOPROCAT to overcome its serious organizational weaknesses and lack of negotiation and management capacity.

**Localization and characteristics of the area**

Dagua is at an altitude of 800 m, with an average annual rainfall of 1000 mm, an average annual temperature of 24°C, and an average relative humidity of 70 percent. The hot chili pepper crops are grown near the Dagua River on hilly sandy-loam soils that are low in organic content. Dagua has 39,000 inhabitants of which 71 percent are rural (DANE, Proyecciones, 1999) and 60 km from Cali, an important urban center. The rural areas of Dagua have access to a paved road, which leads to the marine port of Buenaventura on the Pacific Ocean. There are deficient rural electrification and telephone services. Most small farmers own small plots of land or have access to land through leasing and sharecropping. All farmers belong to
a rural community-based organization. The area does not have financial services because guerrillas attacked Dagua, robbed the Agrarian and Coffee Growers' banks and dynamited the offices, after which they closed down.

**Selection of Beneficiaries**

The selection of farmers to join this project was based on the following criteria:

1. Previous experience in vegetable production
2. Poor, small-scale activities (3 hectares on average) with access to their own means of production: land, technical knowledge, some working capital, and manpower.
3. Diversified income sources so that they did not depend entirely on the proceeds from hot chili peppers.
4. Membership in a community-based organization and commitment to the project.
5. Located on lands that were agro-ecologically suitable for hot chili pepper cultivation and with access to sufficient water for manual irrigation.
6. Located in communities with minimum road infrastructure and electric power, and no farther than 80 km from the Hugo Restrepo & Co. processing plant.

Farmers, in general, have a low level of schooling—primary education on average—although some have high school education.

**Crop management**

The family manages the crops but farmers help each other during crop processing. There is a tradition of sharing hot chili pepper plants with other farmers when they suffer losses during the nursery stage. Experienced farmers also provide technical assistance to those who have little or no experience with this particular crop. Harvest requires intensive use of labor and they help each other in order to speed up the process. All family members participate in crop activities. Women take care of watering and work during the harvest. Children help weed the crop, especially when this is done by hand; they also take food to their parents in the field and help harvest. Men plow the land, take care of the nursery, transplant, weed, apply pesticides and harvest.
Results

- There is a good level of coordination among the institutions that work on rural projects in these communities.
- In 2000, 16 hectares of hot chili peppers were planted, with an average yield of 18 tons per hectare.
- There are 31 families linked to the project.
- The administrative capacity of ASOPROCAT has been strengthened and has been consolidated as a community-based organization.
- Appropriate technology for hot chili pepper production has been validated.
- A small hot chili pepper processing plant was built in the community.
- Armed groups present in the area perceive the project and the institutions working for the project as good for the community.
- All future market contracts and commitments have been met.
- Municipal councilmen and the Municipal Committee of Rural Development (CMDR) gave their political support to the project.
- ECOPETROL contributed US $13,000 in 2001 and with US $14,000 in 2002.
- Hugo Restrepo & Co. and their clients in foreign countries are satisfied with the quality of the exported products.
- Based on positive results to date, Hugo Restrepo & Co. is willing to increase crop areas with ASOPROCAT.

One of the main obstacles faced by the project at present is the difficulty farmers have to recognize the importance of capitalizing ASOPROCAT.

Impact

ASOPROCAT is more business-oriented and its credibility has improved. Further managerial training and backstopping are needed but there are positive signs of improved capacity (for example, leaders successfully negotiated with the mayor of Dagua for the donation of an electric motor for the processing plant). After years of inactivity, ASOPROCAT now offers hot chili pepper processing and storage services, purchasing of agricultural inputs, transportation and commercialization of the product.
People from other communities have become associates of ASOPROCAT due to the success of this project. One of the main leaders of the organization said in an interview:

“Before, I was a normal person in my community; now I feel motivated, committed to the community, to my family and myself. I have more responsibilities. I have grown as a person because I have personal contact with institutions and businessmen. I feel I am important for my community and they recognize me as a good leader and as someone who is working to improve my community. I have improved my relationships with other community members because I have more responsibility and because I have to talk to them more frequently. I am becoming a role model for my community and that is important.”

Living conditions of small farmers have changed with the introduction of chili peppers. From vegetable producers with fairly unstable income sources due to wild price fluctuations in the market, they are now in a position to make better economic decisions because production is paid in advance—even before they plant the seeds. Hot chili peppers are paid in US dollars at the current exchange rate, giving producers more stable income.

Technical assistance and extension services were practically non-existent for members of ASOPROCAT. Today, they receive regular training on better agricultural practices and members have the responsibility of training their peers. They even provide extension services to other members of their community and have access to institutional assistance when faced with problems they cannot solve.

There is no data on farmers’ income, but evidence from the community indicates that it has improved considerably. When an ASOPROCAT associate was asked how the project had affected him, he said:

“Before, I had to work as a day laborer, but today I work on my own farm. I have no need to look for a job. This situation allows me to be with my family all the time, where before I used to work on other farms and I just had time to be with them at night. Now I share more time with my family and they help me with the crop. This is a great advantage because I work for myself and not for somebody else. The project gives me more independence.”

Planning of farming activities has improved as well, because there is a firm commitment to deliver the product for exports. Farmers’ organization has improved, they have acquired better discipline and they use their
time better. There is also evidence that income is invested to improve the welfare of their families, increasing investment in education, health, clothing and utilities. The production of hot chili peppers has become the principal source of income for these farmers and an important mechanism to build social capital.

When asked about the advantages of being a member of ASOPROCAT, they answered:

- We feel we are making a common effort to improve our living conditions through productive projects.
- The Association is a place where we can share ideas and common problems, generate trust and friendship, and improve relations within the community.
- We have the opportunity to receive training on several topics, to learn new things, to grow as people.
- With the Association we are united.
- We all learn from each other, helping and supporting each other like one strong family.

**Factors of success**

One of the most important factors of success was the market orientation of the project since its conception. The decision to work with hot chili peppers was based on the fact that commercialization was ensured and prices were pre-established, which made it relatively simple to calculate the profitability of this activity. Small farmers are highly motivated to engage in production due to the low market risk of the project. Payment of the product in US dollars gives small farmer great stability in the purchasing power of their income; with the continuous devaluation of the Colombian peso, the production of one hectare of hot chili pepper allows a rural family to generate net income equivalent to the monthly minimum wage (US $130).

One of the most pressing problems in rural Colombia is the lack of opportunities for small farmers and their communities; especially young people have few options to make a living and frequently join armed groups, illicit crop production or drug traffic. When they are offered opportunities to generate income in legal and peaceful ways, to grow as individuals, and to serve as role models for other communities and their own, they become fully committed and want to improve their living conditions. They need an opportunity to assume responsibility for their own development.
Building alliances in Colombia is not easy. State institutions do not have credibility with the private sector nor with farmers. There is always suspicion that these institutions and their officials want to take advantage of projects and manipulate the resources for electoral and personal goals. Building positive alliances for development is a long-term process that requires a great deal of commitment, tolerance, patience, respect for other people and institutions, recognition of other people’s work, and a positive environment for resolving conflictive situations.

The intervention of the Carvajal Foundation was frequently perceived with mistrust but such suspicions were overcome by acting with transparency and honesty. Generating trust among the actors has been a priority in the work of the Carvajal Foundation and much attention was placed on creating the conditions to generate better relations among actors to build the strategic alliance to consolidate the project.

**Limitations**

There is not a single institution in the region able to offer non-financial support services to small farmers. The Agricultural Secretariat has qualified technicians, but not enough resources to send them to the field to provide support services to small farmers. The UMATAs have a presence at the local level, but low capacity to provide valuable services. The few technicians available in the region lack the means and transportation to cover the whole municipality. There is also a high rate of personnel turnover; which represents a constant loss of investment in training and hiring costs. The volume of resources transferred from the central government to support decentralization to the municipalities is not enough to assume the responsibility that has been delegated to the local level. Moreover, the central government does not recognize the importance of offering support services to small farmers to make them competitive and facilitate their insertion into productive chains and larger markets.

Policies for rural development are designed at the central level but are not effective at the local level because they do not reflect the particular conditions of local communities or because they are not implemented properly. For example, the Agrarian Bank offers a credit line for small farmers, with 80 percent guaranteed by the Agricultural Fund of Guarantees (FAG). However, local bank managers require a 100 percent real guarantee. Small farmers cannot do this because in most cases land is not titled. There is no coherence between policies designed to support small farmers at the local level and their implementation.
The internal situation of constant armed conflict, violence and drug traffic has a negative impact on the implementation of development projects. Fortunately, the project we are describing has not had any problem with armed groups but it has not been possible to take potential foreign clients to the production area for security reasons, with the consequent loss of business opportunities.

**Lessons Learned**

- **It is very important to maintain good communication among the project participants.** Information has to flow back and forth along the productive chain and among institutions in order to improve the processes and gain in efficiency. It is important to prevent misunderstanding and gossip, to find the best solutions to problems among all actors, and to change the way of doing business when required. Every link of the productive chain must be concerned that every other link is working properly.

- **To work in alliance with different actors is difficult, but at the same time it is an excellent strategy, especially when resources are scarce.** Building complementarities among people and institutions is essential to reinforce those areas where an institution or actor has a weakness.

- **Agreement among project actors is important to implement actions and accomplish objectives.** There is at least one meeting per month in which all actors participate. This is the place where new ideas are discussed, problems are solved, and decisions are made by consensus for the well being of the project, not just for the benefit of individual stakeholders. This strategy prevents the duplication of efforts and minimizes the waste of resources within each institution.

- **Guaranteed markets increase the probabilities of success in a productive rural development project.** A guaranteed market and stable prices act as powerful incentives for farmers. They facilitate agricultural planning, project management and critical decision-making, and reduce the risk of planting low-value market crops for self-consumption.

- **Individual versus collective interest.** Farmers are very practical people and it is hard to motivate them with abstract ideas about organization and economies of scale. Projects to build strategic alliances among producers and market intermediaries need to follow parallel tracks to strengthen organization in line with the individual interests of each stakeholder.
There are many external variables that cannot be controlled by the project: macroeconomic policies and public order are most critical. Overvaluation of the Colombian peso could wipe out any progress made by exporters of hot chili pepper paste. Further armed conflict and generalized violence could cause the displacement of small farmers, with the consequent loss of hard-won foreign clients. Unfortunately, small farmers do not have enough power and lobbying capacity to influence government decisions, though they can be very negatively affected by such decisions.

Relevance of community-based organization. The only way to prove the relevance of community organizations is by linking them to the needs of their associates through the provision of relevant services. Organizations costs time, money and lost opportunities to individuals and the only way to keep them motivated is by making them relevant to their daily life.

Final Reflections
At the time of writing the Fundación Carvajal has been working in this project for a period of two years. The question is: For how long and in what capacity should this collaboration continue? How desirable is this institutional leadership? Donors usually raise the issue of the sustainability of project activities after funding ends. At the same time, the donors tend to fund projects where they perceive there is sound institutional backing.

We strongly feel that our role will have to change over time, but the direction of change depends on two factors: exogenous variables and community decisions. Development institutions have to be flexible, sensitive to the internal dynamics of the community, and responsive to situations as they evolve. Sustainability of the project depends on the dynamics of interaction among all actors in the production-commercialization chain, where each one plays a key role according to the specific context and point in time. The issue of sustainability should be incorporated with longer-term perspectives; after all, these kinds of projects are modifying behavior and the mentality of all stakeholders in the way of doing business. External factors can always threaten the sustainability of development projects, strengthening community-based organizations and their alliance with multiple stakeholders is the only way to guarantee long-term benefits.
Program to Promote the Organization of Rural Women for Development in Mexico

By Nuria Costa Leonardo*

Poverty profile of rural areas

In 1992, there were 8.8 million people in extreme poverty in rural areas of Mexico, almost 8 percent more than in 1989.1 Extreme poverty is mainly a rural phenomenon in Mexico and it is concentrated in the Central and South Pacific regions. Close to 30 percent of the rural population is moderately poor (10.1 million people).

Extreme poverty is found mostly among small-scale producers, both within ejidos2 and small private producers. The geographical distribution of extreme poverty coincides with the ethnic distribution of people in rural areas. The nine states that have the highest index of marginalization are also those with the highest concentration of indigenous groups.3

Migrant workers are another important segment of the rural population in extreme poverty. It is estimated around 1.0 to 1.2 million people or 500,000 to 600,000 families a year; around 650,000 migrants travel to regions far from their place of origin.

Women represent 12 percent of the labor force in agriculture. In economically depressed areas, where there is a high incidence of male migration and women assume their role as household heads, women make all productive decisions (water management, credit and use of land). Studies made in Michoacán and Morelos showed that women owned 23 and 17 percent of the productive land, respectively.

Re-evaluation of the rural sector

The notion that rural economies depend mainly on agriculture and livestock is not adequate to describe rural life. A growing number of rural

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* At the time of writing, Nuria Costa was Director of Priority Groups at the Vice-Ministry of Rural Development, Mexico.
2 Ejido is a form of land tenure created during the Mexican Revolution. The State owns agricultural land but grants use of land for production to peasants organized in small communities.
3 In the states of San Luis Potosí, Querétaro, Hidalgo, Puebla, Chiapas, Yucatán, Guerrero, Oaxaca and Quintana Roo, 25 percent of the total population is indigenous (and 32 percent of the rural population). By contrast, at the national level, these figures are 7.8 and 27 percent, respectively.
areas depend on non-agricultural activities to generate a growing proportion of total income.

The Undersecretariat of Rural Development was created in 1995, parallel to the launching of “Alianza para el Campo” (Rural Alliance). Its mission is to re-evaluate the importance of non-agricultural activities in rural towns and to develop broad-based participation and commitment from rural residents (peasants, NGOs and small rural producers) to support rural development. Programs under “Alianza para el Campo” were carried out by decentralizing federal resources for the local execution of projects under federal government guidelines.

The principles behind “Alianza para el Campo” were to: make the family the basic unit of rural development; promote cooperation to reduce input costs and increase the value added of the final product through the creation of production chains; give special consideration to the role of women and youth in the promotion of productive projects; promote diversification of the rural economy by promoting competitive and sustainable productive alternatives that make use of local resources and appropriate technologies emphasizing training and technical assistance; promote inter- and intra-institutional coordination to increase efficiency of programs for rural development; support the process of decentralization to generate local solutions to specific problems; promote involvement of groups from civil society (NGOs, academic and research centers); promote the use of existing technical, commercial, organizational, managerial and financial knowledge that require the transformation of traditional extension services to incorporate the specific characteristics of regions and beneficiaries.

**Rural women in Mexico**

According to the population census of 1995, there were 11.6 million rural women, representing 49.8 percent of the total population in rural areas. Life expectancy is lower among rural women (69.5 years versus 73 for urban women) and they suffer twice the risk of death due to pregnancy. The following are for women between 15 to 49 years of age:

<table>
<thead>
<tr>
<th>Rural women</th>
<th>Urban women</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.7</td>
<td>1.9</td>
</tr>
<tr>
<td>53.6%</td>
<td>73.3%</td>
</tr>
<tr>
<td>22.2%</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

average number of children

percentage of women using birth control methods

percentage of women not using birth control methods
Illiteracy rates:

<table>
<thead>
<tr>
<th>Rural women</th>
<th>Urban women</th>
</tr>
</thead>
<tbody>
<tr>
<td>26% women 15 years of age</td>
<td>9%</td>
</tr>
<tr>
<td>10% 15 to 29 years of age</td>
<td>2%</td>
</tr>
<tr>
<td>40% 30 years old and over</td>
<td>14%</td>
</tr>
<tr>
<td>21% girls 6 to 14 years</td>
<td>21%</td>
</tr>
</tbody>
</table>

School attendance:

<table>
<thead>
<tr>
<th>Rural women</th>
<th>Urban women</th>
</tr>
</thead>
<tbody>
<tr>
<td>86% girls 6 to 14 years</td>
<td>94%</td>
</tr>
</tbody>
</table>

Women participate in all agricultural activities: harvesting, seeding and applying agrochemicals and fertilizers. In January 1998, a survey to 60 percent of ejidos in Mexico showed that 21 percent of landholders were women. And in Northwest Mexico, in 1978-1990, women represented 25 percent of the daily work force, rising to 33 percent in 1992. In Baja California, the figure was around 38.5 percent. The majority of these women was indigenous and had migrated from States in the South. There are also approximately 5.5 million families who own small plots of land in their backyard (“traspatias”—1.5 square meters on average), where women produce crops and raise farm animals mainly for self-consumption, with a small portion commercialized in local markets.

The National Network of WRD Coordinators

Two new programs were created in 1999: “Women in Rural Development” (WRD) and the “Microfinance Fund for Rural Women”, each with its own budget and legal capacity to sign agreements with state governments. The federal government contributes up to 70 percent of total resources and the state government contributes the remaining 30 percent. The Ministry of Agriculture has offices in each state to coordinate all activities in the region. The WRD program appointed one representative in each regional office to supervise activities, coordinate resources deployed to the program, deal with inter-institutional arrangements, report, and evaluate results. This structure has helped increase the number of women beneficiaries of the different projects implemented by Alianza para el Campo.
Women in Rural Development Program.

As part of Alianza para el Campo, this program was created to respond to the trend observed in Mexico towards the “feminization of agriculture and land property”. The program intends to respond to this trend by enhancing women’s ability to increase agricultural production and contribute to food security. It recognizes the importance of women in rural development and has the additional objective of supporting the introduction of a gender perspective in the design and implementation of policies for rural development, including those that promote equitable access of rural women to training, purchase of rural equipment, technical assistance, and information.

The program promotes effective participation of women’s groups in the micro-region into the strategic planning of existing rural development programs. The objective of the program is to increase the earnings of working women by increasing the productivity of their economic activities, and improving their capacity to commercialize their products and strengthen their organizations. The ultimate goal of the program is to contribute to decrease extreme poverty in rural areas.

Particular areas of support are:

a) **Diversification of rural production and creation of production chains within micro-regions.** Supporting the organization of women’s groups to foster growth of non-agricultural micro-enterprises as a way to improve the competitiveness and profitability of women’s activities. The project promotes diversification of the rural economy by supporting the creation of productive chains to link production, processing and commercialization of products.

b) **Strengthening production and commercialization cooperatives.** Promotion and consolidation of organizational processes and training at local and regional levels to promote and strengthen cooperative partnerships that help women take advantage of larger economies of scale.

c) **Recovery systems and productive investment.** Increasing the capacity of women’s groups to identify their own investment opportunities through gradual elimination of government subsidies; initial resources from the program are used to create saving instruments in the communities—or improve the existing ones.

d) **Promoting food security.** Encouraging backyard garden activities with the participation of men and women in association with consultants, research and educational centers to generate low-cost, high-yield gardens for food security within the family.
e) **Technological improvement.** Supporting technological improvement through transfer, adoption and exchange of technology, technical assistance and training based on professional services from traditional extensionists and national training programs.

f) **Sustainable management of natural resources.** Strengthening technological innovation and the use of equipment to promote the rational exploitation of natural resources and to protect traditions, culture and community organization.

g) **Integration of rural women in decision-making.** Women’s organization will strengthen their position for wider participation at the community, region, state, and even national levels.

h) **Human and social development.** Programs of continuous education and training to maximize the potential development of women by changing their attitudes and motivations; training programs are implemented for both rural women and professional service providers.

i) **Monitoring and evaluation.** Developing methodologies to measure results and identify success or failure by comparing actual results to planned objectives.

j) **Diffusion and consolidation of successful experiences.** Identification, systematization, consolidation and dissemination of successful experiences to promote wider participation of women in their own regions and in other regions.

**Program components**

The program to support rural women has three components: the rural development project; the creation of micro-regional networks and the installation of demonstrative backyard modules for food security. Implementation of this strategy is based on the identification of women’s groups within the municipalities defined as “regions of immediate and high priority” according to the index of marginality established by the National Council of Population (CONAPO). Once women’s groups confirm their interest in adopting the productive projects offered, an inter-institutional committee (“vocalía”) of the Women in Rural Development Program is created, with representation from the state and federal governments and support from an operational technical unit.
Eligibility criteria
Groups of rural women interested in participating in the program must meet the following requirements:

- Live in a region defined as high- or immediate-priority, according to the index of marginality
- Be organized in groups with a minimum of seven partners, regardless of land ownership but living in ejidos, rural communities or neighboring regions.
- At least one other institution must be involved in the project. Creation of partnerships receives priority access to funds.
- Agreement to participate in the micro-regional network of WRD and attend all training workshops by network representatives. Representatives are in turn responsible for disseminating information and training to the rest of their partners.
- Creation of a savings and capitalization fund with the partial or total recovery of resources granted by the program. The objective is to use this fund for reinvestment to make projects sustainable.

About the projects
Productive projects are activities that promote the generation of employment, higher income and improvement of women’s working and living conditions. The program supports projects of rural development that go beyond traditional agricultural products. Some examples are tortilla factories, mills, bakeries, stores, greenhouses, nurseries, butchers, organic agriculture, fruit and vegetable orchards, livestock production and provision of services to other micro-enterprises.

The criteria for project approval are based on their impact in four areas:

a) **Social impact (well-being).** Projects are considered high-priority where more women are organized or where food self-sufficiency of the families of beneficiaries is attained.

b) **Social impact.** Measured by their replicability in other regions and the generation of direct and indirect employment; also, projects that help preserve the environment do not produce pollution and do not destroy natural resources.

c) **Economic profitability.** Investment should be sustainable and avoid dependency after the initial subsidy. Priority is given to projects that
work in association with others as a way to enlarge and consolidate initial investment.

The maximum grant that can be approved to a single group is equivalent to about US $10,000 dollars. No more than five percent of the grant can be used to develop the project; about 30 percent can be used for technical assistance and training; a minimum of 60 percent is for the purchase of equipment and no more than five percent to support commercialization.

**About the Micro-Regional Networks**

The purpose of the network is to generate a space where representatives of groups organized by WRD can meet and exchange experiences. Networks have also helped beneficiaries monitor their development projects, identify problems of execution as they arise, improve the functioning of their organizations and evaluate the economic and social impact of their projects.

The networks are integrated according to the geographical area where organized groups operate; each network is made up of 7 to 30 groups. Each group appoints two representatives to the network, responsible for participating in all workshops. Representatives are responsible for disseminating information among other members of the group.

The government supports the creation of such networks with a grant of up to about US $18,000). Resources can be spent on four participatory workshops a year, payment to a specialized adviser to the network, and technological exchange tours. While the government subsidizes the operation of networks for the first two years, they are expected to continue operations with their own resources. Each network establishes minimum fees for the creation of their own fund to finance future operations.

Each micro-regional network appoints an adviser to assist development of the network and participate in regional and national workshops for monitoring, methodological updates and evaluation of the program.

**About Backyard Modules**

The program WRD has supported the organization of backyard modules for the demonstration of alternative agricultural production that is appropriate to the characteristics of each region and for the promotion of food security among poor households. Local technical schools, research centers, NGOs and private institutions may develop backyard modules with support from the WRD program if they have the technical capacity
to install and promote the modules and to advise and train rural women and their families on how to adopt them and make them sustainable.

**Procedures to obtain assistance from the program**

Groups of organized women are eligible to apply for the resources allocated to the WRD program. The decentralized structure of the Ministry of Agriculture, with traditionally strong presence in all regions of the country, has been critical to capture and provide assistance the women’s groups to develop a project profile and file their applications for resources. There are more than 8,000 technical extensionists in the field supporting the successful implementation of the program. Once resources are approved and the 20 percent contribution required of the group has been certified, technical assistance will continue for the acquisition of equipment, selection of service providers, and integration of the group into a micro-regional network. Disbursement of resources is regulated by the program’s guidelines and there are set percentages that can be spent on certain items. These tight regulations can be adapted to the particular characteristics of different regions, but previous approval from the central management is required. Resources are allocated in trenches, and all expenditures require detailed receipts; resources for the next trench are not released until all expenditures for the previous one have been documented and the group has filed a report on its activities.

**The operation of WRD in Puebla: A case study**

The state of Puebla is located in the south-central part of the country. It has almost 600,000 thousand indigenous people of different ethnic groups—the third highest population in the country, representing more than 10 percent of Mexico’s total indigenous population and 13.2 percent of the state’s inhabitants.

Social indicators of indigenous people are much lower than national averages, especially in education and health. Illiteracy stands at 42 percent, while the state average is 14.7 percent; indigenous communities have an average of 42 doctors per 100,000 inhabitants and 57.8 percent of their homes do not have access to safe water or sewage disposal. They largely depend on subsistence agriculture.

**WRD in Puebla**

At the beginning in 1999, the WRD Program in Puebla had a federal budget of 2.5 million pesos, plus 2.5 million in state contributions; 1,667 women organized in 137 micro-enterprises were supported and 11 micro-regional...
networks were created. In 2000, an increased budget of about US$ 800,000 helped expand the number of productive projects to 186, with benefits to 1,816 women organized in 20 micro-regional networks.

In the year 2000, 1,100 backyard modules were initiated in 55 communities. In each of these communities a young person was trained to become a community promoter responsible for sustaining a module in his/her own backyard for demonstration and supporting the installation of at least 20 other similar modules among 20 families in her/his community. Each backyard module includes cultivation of vegetables, fruits and trees, as well as raising hens, turkeys, ducks, rabbits or pigs. The objective of backyard productive modules is to achieve integrated production practices that are ecologically sustainable and help to improve family nutrition. These productive units help to change the consumption patterns of households and to diversify the use of the small plot of land that each family has at home.

**The Micro-regional Network of La Sierra Negra**

One of the 20 micro-regional networks in the state of Puebla is La Sierra Negra, in the Municipalities of Vicente Guerrero and Ajalpan. The community had serious problems with alcoholism and masculine migration, leaving women in charge of household survival. The network had 14 groups; 11 from the Municipality of Vicente Guerrero (106 women) and three from the Municipality Ajalpan (with 38 women). Female illiteracy is 37-57 percent in each region, respectively.

A nutritional survey carried out in the Sierra Negra region showed that only nine percent of families had access to proper food, with a consequently high incidence of malnutrition, especially among children younger than five years of age, where malnutrition is as high as 39 percent among girls and 32 percent among boys; 20 percent of the total population presented some degree of malnutrition. Health, education and communications in the Sierra Negra region are scarce and faulty; there are communities that can only be reached on foot or donkey.

**Project execution**

Upon approval, organized groups develop their own working guidelines and identify their training needs with assistance from the adviser selected by the groups.

The La Joya group created a demonstrative module with three micro-tunnels for the cultivation of edible cactus; the module is used to train other groups. Production is sold to generate income to maintain the mod-
ule and for the creation of a common fund for the expansion of the project. In addition, each member of the group has a micro-tunnel in her own house and production is for sale in the local market or to wholesalers.

Revenue produced by these units in high season may amount to about (US $60) a month. In the low season, some women started processing their produce for sale in a nearby market, receiving relatively high daily revenue of about US $20—much more than any other job alternative for these women.

Another group, La Union, also produces cactus in micro-tunnels but they operate as a cooperative. Women in this group incorporated technological innovations and further processing, increasing the value of their product. They produce shampoo, ointments and pickled cactus for consumption. Twenty percent of monthly revenues are used for a collectively-managed fund for reinvestment. A measure of success of this group is that they are now suppliers of “rackets” (plants for reproduction) to “Alianza para el Campo”, which uses the young plants to create similar projects in other regions. “Rackets” sold to the program generated additional income estimated at US $1,000 in 2000.

Among the groups raising sheep there is an interesting experience within the Talteconestli group. Traditionally, women in this group produced wool fabrics with “waist looms”. So, they decided to engage in sheep raising, adopting an interesting mix of collective and individual work. Care of the animals is done collectively, but shepherding is the responsibility of individual families. Women now benefit from both meat production and wool and savings from the project have allowed them to purchase mechanical looms with a substantial increase in productivity. Since the Micro-Regional Network includes six groups dedicated to sheep production, the women have started to consider consolidating the commercialization of their products to get better prices.

The Tres Lagunas group was the first to introduce a bakery project. They produce 650 pieces of bread a day and sell cakes to the community. Following their lead, the Las Hebreas group started a similar project, but were able to expand sales to neighboring communities with the support of their husbands, who distribute the bread by donkey, since there are no roads. The group earns approximately US $2 a day per woman. Before these bakeries existed, bread was brought from Tehuacán two days a week, at higher prices and lower quality and freshness.

The Citlali group began a collective farm to raise rabbits. Their success led them to distribute breeding stock to other groups under the sponsorship of Alianza para el Campo for an extra US $215 per woman in 2000, in addition to the regular sale of their product. Increasing income is help-
ing expand the original project to include fields to feed the rabbits, since input costs are high.

The Altepétl Tlázonke group manufactures clothes (dresses, shirts, pants and sheets) for sale in neighboring communities on market days. Twenty percent of project funds are saved to create a fund to assist women in cases of emergency.

Finally, the Boca del Monte group is the least developed. Women have not left the community to sell their embroideries because their husbands would not let them. This community is the most isolated in this micro-regional network—two hours’ trip on foot to the closest community.

**Project impact**

A more conclusive evaluation of these projects requires a formal evaluation on the allocation of resources. This section presents some informal results and observations from two years of implementation of the WRD program in the region:

Organization of women’s groups has helped empower them in their role as decision-makers within the groups and also within their own households and communities. The creation of micro-regional networks and participation in regional training tours has helped strengthen solidarity among various groups and empower women’s organizations at the regional level. Permanent training activities have improved women’s productive and managerial skills. Increasing income and an increasing supply of self-produced food has improved the diet of families and helped to diversify consumption with the incorporation of new vegetables, animal protein and grains. Diversification of production in women’s groups also has a demonstration effect on other producers, who are adopting new technologies and products to diversify their traditional crop mix. The majority of groups have savings and reinvestment funds to support the sustainability of the processes and reduce existent paternalism.

The creation of savings funds and better organization of producers is critical for the consolidation of the WRD program because it helps women access other government programs. The most successful groups join the Microfinances Fund for Rural Women, increasing their access to larger sources of funds for production.

**Additional results**

The WRD program has also achieved results in other areas of public policy:

As a result of program implementation there is increased awareness about the importance of rural women among policy makers and institu-
tions in charge of rural development. There is greater use of statistical information as a way to generate awareness about women’s issues within the Ministry of Agriculture and other government agencies. The inclusion of a gender perspective in all different programs of the Undersecretariat of Rural Development benefited more than 650,000 women between 1996 and 1998, and in 1999 it led to the design of two additional programs with a gender perspective: the “Organized Groups of Women in Rural Development” and the “Microfinances Fund to Rural Women” (FOMMUR).

WRD has promoted the development of more than 124 networks in the country, with more than 45,000 rural women working in more than 3,000 diversified micro-entities. In turn, FOMMUR supported nearly 35,000 rural women in their own micro-business projects. The positive interaction between FOMMUR and WRD has promoted a culture of credit repayment and savings that will surely help strengthen local capacities and develop a sustainable strategy for rural poverty reduction.

The achievements of WRD are also highlighted by the increase to the Program’s budget by the National Congress—from about US $7.4 million in 1999 to $11.5 million in 2000 and $20 million in 2001. This does not include the budget for FOMMUR. In addition, WRD has promoted cooperation with a FAO project, the “National, Open and Long Distance Training Plan for Integrated, Sustainable and Equitable Rural Development”, with the participation of 600 people in 17 states around the country.

All this has increased government awareness of the need to design explicit policies to reduce gender inequality in rural areas by creating better occupational and income opportunities for women.

In October 2000, a national WRD meeting was organized with participation from all micro-regional networks in the country; more than 300 people attended. Some conclusions presented by women themselves illustrate the impact of the program:

**Benefits of our projects:**

- Our families are better integrated.
- We make an important contribution to family income, and nourishment of our children has improved.
- We were able to diversify production.
- We have gained better awareness of the environment and how to take care of it.
○ We have learned to commercialize our products.
○ We contribute to generate employment in our own communities.
○ We now have more courage as individuals, greater solidarity and better integration in our working groups.
○ We receive more recognition from other family members.
○ We have raised our self-esteem.
○ We contribute to family savings.
○ We have been able to incorporate technical assistance into our projects.
○ We have something that is ours; we created it; it belongs to us.
○ We are now organized and have freed ourselves of many taboos.
○ We have received more government support.
○ Training has helped us develop a gender perspective, improve our self-esteem, and improve our skills for better administration and commercialization of our projects.
○ We have learned from other experiences; we are able to identify our weaknesses and strengths and to build better family relationships based on respect.
○ We know we are valued, self-sufficient and happier.
○ Now we can help other women.
○ Our husbands admire and value us more.
○ We share household responsibilities with the family.
○ At first, our husbands criticized us; now they consult with us and request our support.
○ The community proposes that we occupy positions in the community.
○ Now we participate in council and regional events, in state congresses and even national events.
○ Now we are able to participate in other activities like literacy campaigns, health projects and other services to improve the well-being of our communities.
○ We are better qualified to understand political issues.
We are able to consider options for marketing our products at the national and international level.

We can socialize our experiences and results.

**Challenges**

Consolidation of the program still faces several challenges, mainly related to the sustainability of micro-regional networks as an effective mechanism to deliver training and encourage the exchange of experiences among women’s groups. A stronger gender perspective in the strategic vision of programs for rural development will also be critical to consolidate the program and extend its benefits to larger groups of poor women and their communities. Inter-institutional coordination at different levels of government both horizontally and from the center to the state levels will also be critical.
CHAPTER 9

Diversification of the Rural Economy
The Case of Taiwan

By Chien-Zer Liu

Introduction

During the last three decades, Taiwan has made a successful transformation from a mainly rural economy to an industrialized one. In contrast with other developing countries, Taiwan utilized resources from agricultural development to stimulate industrial growth and development. What is remarkable about the experience of Taiwan is the close interaction and consistency of development objectives achieved between the rural and urban sectors to support economic development and the reduction of rural poverty.

Historical Review of Economic Development in Taiwan

Taiwan’s economy has continued growing vigorously during the past five decades. GNP in real terms has increased 30 times, averaging 6.2 percent per year from 1952 to 1999. Per capita income has increased 15 times during the same period, reaching the equivalent of US $8,323 in 1999. These high growth rates have been achieved despite rapid population growth, one of the highest population densities in the world, and limited natural resources.

Most of the productive facilities in the agricultural sector were destroyed after World War II and agricultural production declined drastically to only half the pre-war level. Post-war economic development in Taiwan can be divided into three phases. In the first phase, land reform and the creation of farmers’ association were used to strengthen the agricultural foundations of rural production. A comprehensive land reform program gave farmers a strong incentive to increase production and diversify to other crop varieties. Construction of irrigation facilities and the adoption of labor-intensive technology improved productivity and increased the purchasing power of rural people. Stronger farmers’ organizations helped to increase the participation of farmers in rural development activities and increased their collective bargaining power.

* At the time of writing, Dr. Chien-Zer Liu was Professor and Head of the Department of Agricultural Economics at National Chung Hsing University.
In the 1950s, the government reformed the foreign exchange system and gradually relaxed trade regulations as a way to expand economic growth. Imports and exports increased rapidly and have taken the lead in Taiwan's economic development.

In the 1960s, Taiwan’s focus turned to relatively labor-intensive production of consumer goods for exports. The government actively promoted savings and investment and encouraged the upgrading of technology and management. The balance of trade remained unfavorable for many years but in 1970 it started producing a surplus, increasing reserves of foreign exchange. Agriculture and derivative processed products accounted for 91.6 percent of total exports in 1953 while exports of industrial products were only 8.4 percent. By 1966, the share of industrial exports exceeded 50 percent of total exports and started to accelerate. In 1999, industrial products accounted for 98.4 percent of total exports, while agriculture and derivatives accounted for 1.6 percent.

In terms of employment, in 1953 agriculture absorbed 55.6 percent of the labor force while the industrial sector and services contributed with 17.6 and 26.8 percent respectively. In the course of industrialization, in the agricultural labor force decreased to 8.3 percent in 1999, while the industry accounted for 37.2 percent and the service sector 54.5 percent. There was a consistent decline in agricultural production in relation to total net domestic product (NDP), matched by a rapid increase in the share of the industrial sector (including mining, manufacturing, electricity, and construction).

Small farms and labor-intensive farming characterize Taiwan's agriculture. In the early stage of development, agricultural production increased mainly through the adoption of improved technology, which allowed more efficient use of existing land and labor. The crop mix also changed significantly in the same period. In 1952, rice accounted for 58.7 percent of gross crop production but by 1999 rice had declined to 21.6 percent and the shares of fruits and vegetables increased to 35.4 and 23.3 percent, respectively. Farmland use has become more extensive in the last 30 years due to the decrease of agricultural labor, particularly since the 1970s. The total number of agricultural workers fell from 1,642,000 in 1952 to 776,000 in 1999.

Farm size in Taiwan has remained small and actually decreased slightly from 1.29 average hectares in 1952 to 1.09 in 1999 and the number of small-scale farms (less than one hectare) has increased. In 1955 farm households with less than 1.0 ha. represented 56.9 percent of the total; by 1975 they were 69.8 percent and 72.2 percent in 1995.

In order to increase farm family income and raise living standards to match that of non-farm families, more and more members have taken jobs in the non-agricultural sectors. In 1965, full-time farm households
were 32 percent of total rural families, part-time farm households were 41 percent, and sideline farm households were 27 percent. However, in 1995, full-time farm households and part-time farm households decreased to 12.8 percent each, while sideline farm households increased to 74.4 percent. Farming households now receive over two-thirds of their total income from non-farm sources.

Up to the mid-1960s, agriculture brought a fairly steady increase in real income to farm families, commensurate with that of non-farm families. Since then, net farm income has risen relatively slowly. By 1999, farm family income was 79.8 percent of non-farm-family income. However, net receipts from farming do not measure farmers’ welfare. Family budgets only partially reflect the availability of social services, amenities, medical care, education, transportation, communication, housing, and electric power. Another important measure of farmers’ welfare is the relatively high level of organization of rural communities, which gives them the opportunity to voice their concerns and increase access to public services. When this is taken into account, rural people in Taiwan have enjoyed notable improvements in the last three decades.

Strategies in Rural Poverty Reduction and Rural Development

Land Reform Program
Fifty years ago as much as 39 percent of farmers were tenants. Part-owner farmers and tenants accounted for 65 percent of the total. The majority of Taiwanese farmers relied on the tenancy system for a living but rents were high. Farmers lived in misery in spite of their yearlong efforts in the fields while landlords lived comfortably without working. Before the implementation of the land reform program (1949-1953), farm rental rates could be as high as 50 to 70 percent of the total annual crop yield and landlords could evict tenant farmers at will. Such high rental return created incentives for landlords to buy more land rather than invest in the industrial sector. Farmers were driven to extreme poverty and economic growth and development stagnated. Social and political conditions in rural areas were unstable and polarized.

The farmland reform program was implemented in three steps: rent reduction, the sale of public farmland, and the land-to-the-tiller program.

Rent Reduction
The key points of the program were: (a) maximum rent should not exceed 37.5 percent of the total annual yield of the main crop; and (b) all
lease contracts should be written and tenure could not be less than six
years. Landlords could not discontinue the lease and it was effective even
if transferred to a third party. The program was implemented for a short
period of time—April to July 1949. Rent reduction became a strong in-
centive for farmers to increase production.

**Sale of Public Land**

In 1951, after the farm rent reduction program had obtained excellent
results, the government took a further step to sell public land to farmers.
The salient points of the program were:

- Any farming family was allowed to purchase 0.5-2 hectares of public
  paddy field and 1-4 hectares of public dry land.
- The sale price was equivalent to 2.5 times the total annual yield of the
  main crop with annual installments over a period of 10 years.
- The annual total payment, including farmland tax, should not exceed
  the annual rent paid previously.

By 1970, 120,266 hectares of public land was sold to 265,976 farm fami-
lies (0.45 hectares per tenant on average).

**The land-to-the-tiller Program**

The land-to-the-tiller program was carried out in 1953:

- A landlord was allowed to retain a maximum of 3 hectares of paddy
  field or 6 hectares of dry land. Any excess was purchased by the gov-
  ernment and sold to tenants.
- The land price was equivalent to 2.5 times the annual total yield of
  the main crop on that land.
- Landlords were compensated with 70 percent of the purchase price in
  land bonds with 10 years installments. The remaining 30 percent was
  paid with stocks of government-owned enterprises.
- Tenant purchasers bought land from the government at the same price
  and same installment periods as those contracted with former owners.

The program was completed at the end of 1953; a total area of 143,568
hectares owned by 106,049 landlords was purchased by the government
and resold to 195,823 tenants.
Contributions of Land Reform to the Rural Economy

Land reform not only represented a substantial redistribution of wealth and income; it also created incentives for farmers to work harder and increase land productivity through capital investment, use of fertilizer, and more intensive and better methods of cultivation. The land reform program led to multiple cropping and promoted agricultural development. This helped absorb surplus farm labor and accelerated the development of the food processing industry.

Agricultural production reached its highest level by 1952. Agricultural exports increased, facilitating imports of raw materials and equipment required by industry. With more than half of the population living in rural areas, their economic prosperity led to an expansion of the domestic market for industrial products, paving the way for industrialization.

Following the completion of land reform in 1953, the government set out its economic development strategy "to foster industry with the aid of agriculture and to develop agriculture with the support of industry". Four-year economic development plans were implemented and the result was economic prosperity, increased national income and better living standards, known as Taiwan’s “economic miracle”.

Programs to Support Agriculture and to Reduce Rural Poverty

In the mid-60s, Taiwan’s agricultural development reached a turning point. The role played by agriculture in total production decreased and farming turned from land- and labor-intensive to capital-intensive. Rapid increases in industrial employment increased the relative cost of farm labor and overall production costs. The gap between farmers’ per capita income and that of non-farmers also increased. More and more families turned to off-farm earnings to supplement their incomes. Since 1973, the government has implemented several programs to support agriculture and ensure adequate income to farmers. Following are the salient points of these programs.

Accelerated Rural Development Program (ARDP) 1973-1979

In 1972, the government announced the so-called "Nine measures for accelerating rural development". Its objectives were: to increase agricultural production, raise farmers’ income, improve rural living conditions and accelerate agricultural modernization. Specific measures included:

- Reducing production costs by lowering prices of fertilizers and decreasing farmers' tax burden;
Easing the terms of agricultural credit;
Improving agricultural marketing facilities;
Strengthening rural infrastructure such as housing, roads, public health, etc.;
Accelerating the use of efficient traditional techniques of production;
Establishing a Specialized Agricultural Production Area, where public facilities are provided with government support for joint production and marketing to help farmers decrease production costs and raise income;
Strengthening agricultural research and extension;
Founding the food stabilization fund to purchase rice at guaranteed prices and provide loans without interest for rice growers; and
Promoting rural industrialization, and encourage the establishment of industrial plants in rural areas.

To carry out these activities, the government granted 0.07 US$ billion in 1973-74 but the program continued through 1979.

Subsequent Programs

After the ARDP, the government launched two more programs to support rural development: Enhancing Farm Income and Strengthening Rural Reconstruction in 1979, and Basic Infrastructure Development in 1980. These programs aimed at a more coordinated and integrated approach to long-term rural development. In 1985, a six-year Program on Improving Agricultural Structure and Enhancing Farm Income was launched. This program emphasized a shift away from rice production toward higher-value crops and promoted larger farms, improved agricultural marketing, and strengthening of agricultural research and extension. The government took action to:

a) Strengthen agricultural training to make farmers more productive and provide greater opportunities for formal education, so that farm youth is better qualified for farm management.

b) Improve production techniques to raise yields. Emphasis was on crop diversification, pest and disease control, and traditional techniques for production.
c) Adjust production factors to improve efficiency. The drastically rising labor costs in recent years make the substitution of machines for human labor even more imperative.

d) Increase investment in infrastructure. Despite heavy investment in irrigation facilities in the past, rural infrastructure needs further development to improve rural roads, electrification and communications.

The ultimate goal of development is to improve living standards. Policies of modernization in rural areas are also paying close attention to the improvement of education, health, water, electricity and transportation as the means to raise the welfare of farmers.

The Second Stage of Farmland Reform

After the completion of land reform in 1953, the land tenure system became rather rigid. Past land reform concerned with equality of landownership cannot fulfill the needs of today's agricultural development. Fragmentation of farmland due to rapid population growth and the division of inheritances led to a scale too small and scattered to accommodate modern farming. The second stage of land reform, implemented in 1982, included:

a) Promoting joint, entrusted and cooperative farming to enlarge the scale of farming.

b) Accelerating land consolidation to promote the mechanization of agriculture.

c) Facilitating the mechanization of agriculture to increase labor productivity.

d) Amending today's land regulations to comply with present and future development.

e) Providing long-term, low-interest loans for purchasing farmland to expand the scale of production.

Most farmers were not familiar with group farming and were not interested. It was also extremely difficult to enlarge the farm size by renting, due to the old system of limiting the value of land rental to 37.5 percent of annual production. In order to facilitate the consolidation of land holdings, the government abolished the “Agricultural Development Act” in 2000. This new legislation should give farmers incentives to enlarge their farms.
Rural Industrialization

Rural industrialization is one of the main factors that helped diversify the rural economy and helped reduce rural poverty in Taiwan. Factories producing foods, chemicals, metals, wood products, mechanical apparatus, non-metallic ores and textiles have been predominant. These kinds of products not only require agricultural products as raw materials, but also are more adequate to the rural context, characterized by a large number of small and medium-size factories.

Rural industrialization provided rural labor with more opportunities for higher income. Increasing the income of farm families with non-farm income sources has also improved capital investment in their own farms. Rural industrial development thus has not only raised farmers' living standards, but has also improved their ability to invest in agriculture, a factor that is crucial to continue the prosperity of the rural economy. The employment created by rural industries has also changed the labor patterns in farm families and rural communities. The absorption of workers by rural factories has stabilized agricultural labor and prevented massive rural migration to urban areas. The increase in land prices caused by industrialization also increased the income of farmers who sold their land.

The development of rural industries has gone through the same four phases as the rest of the industrial sector in the country, with 4-6-year economic plans implemented since 1953:

a) During the early import-substitution stage, industrial production emphasized relatively simple import substitution, but gradually became more sophisticated. Initially, the main products produced were food, textiles, yarn, bicycles and fertilizer, which were urgently needed. The development of a diversified agro-industry in rural areas was crucial to provide non-farm employment and rural poverty alleviation.

b) In the late 1960s and 1970s, the emphasis on import substitution shifted to export promotion. The Statute for the Encouragement of Investment provided incentives such as: loan programs and tax deductions or tax exemptions to exporters; easier terms of land acquisition; and public investment in public services. All this was to encourage industrial investment. Other policies included the establishment of export processing zones in Kaohsiung and Tantze, with a positive impact on rural industrial development. Electronics, wood, plastics and optical equipment were the main exports—all relatively high in value added and labor-intensive.
c) In the late 1970s and early 1980s, industrial development in Taiwan emphasized heavy industry, including the manufacture of chemicals and heavy machinery. Petrochemical products, steel, and other basic metal products were also important.

d) Beginning in the 1980s, government development policies have moved on to the development of precision and high technology industries. Machines, semiconductors and electronics are expected to become more prominent over the coming decade.

While rural industrialization in Taiwan has made a positive contribution to the diversification of the rural economy it has also generated industrial pollution affecting crops and fisheries. Rural people have become more aware about the deterioration of the rural environment and have put strong pressure on the government to implement measures to control pollution.

**Rural Development Strengthening Rural Construction**

Unrestricted development in rural areas caused chaotic use of land with narrow and winding roads that restrict on-time delivery of production, causing a negative impact on rural development. Inappropriate drainage and poor housing further contribute to deteriorate working and living conditions, especially when compared to urban areas. Balanced development is a major concern of rural development nowadays.

Rural construction lacks any form of regulation; newly built modern houses co-exist with older traditional buildings in a disorganized, unharmonious rural landscape. The government has recently promoted a series of rural construction projects for village renewal and farmland consolidation.

Farmland consolidation requires an integrated, comprehensive approach to include not only productivity concerns but also living conditions and housing space. With the advancement of modernization in rural Taiwan, the use of rural machinery and household appliances is crowding the traditionally limited space available to each family. Machines and working appliances are often stored without protection, decreasing productivity and the useful life of expensive instruments. Often, rural infrastructure is not adequate to large machinery and transportation vehicles. It is difficult to move around narrow roads in communities, reducing efficiency.

Long-term rural development requires comprehensive plans for farmland consolidation to merge the small and scattered pieces of land into bigger ones, more appropriate for modern farming.
Rural village renewal would improve working and living conditions of families. Strengthening rural infrastructure and repairing farm housing should also include restoration of historic buildings and rural relics to create new cultural values and further diversify the rural economy.

Creating Rural Recreational Value
Rapid economic changes in the country have constrained growth in many rural areas. They are gradually losing their original productivity, vitality and attractiveness, leading to migration to urban centers in a search of higher income. But the problems facing rural areas today are not limited to agricultural production and lower income; they involve other aspects of life: social cohesion, cultural diversity, the deterioration of the environment, physical decay of buildings and housing and insufficient provision of public services and public facilities. If these problems are not solved, the labor force in rural regions will continue migrating to metropolitan areas, with the consequent rise in urban problems.

The growth achieved by Taiwan through years of successful development allows us to focus on the many facets of rural areas that go beyond their mere contribution to production. The variety, natural beauty and individuality of rural life make rural areas attractive. Urban residents value them greatly as places for vacations, recreation and relaxation. Rural construction projects should infuse vitality into rural areas and protect traditions, unique lifestyles and the natural environment. Development of recreational areas will also provide additional sources of income to rural residents.

Rural construction, to be effective, needs to include: basic public facilities; renovation of houses; provision of basic infrastructure and recreation facilities; construction of sports grounds, children’s playground, parks and green spaces; and improving the quality of transportation and environmental protection. Promotion of rural tourism requires an increase in the number of vacation facilities and preservation of historical relics. Such policies would strengthen the sense of belonging among rural residents and decrease migration flows. The solution to rural problems will also strengthen urban development and achieve balanced growth between urban and rural areas.

Concluding Remarks
Agriculture has played an important role in the process of rural development in Taiwan and has laid a solid foundation for further economic development. This includes not only producing food for the nation, but an
important non-economic role. Agriculture is the basis for a stable society and is also instrumental in facilitating industrial and commercial development, preserving the natural landscape and environment, and providing a good living habitat and recreational areas. A rural area is not only a place for agricultural production, but also the working and living space for farmers and the birthplace of local culture.

After successful economic growth improved living standards among the rural population, Taiwan is mature enough to take a broader view of development. Comprehensive Rural Development Planning (CRDP) would help enhance public infrastructure and working and living conditions, and would incorporate environmental concerns. At the same time, it would enhance the recreational value of rural villages and facilitate the reconstruction of houses and recreational facilities. CRDP would increase the value urban residents attach to the rural communities and, in turn, rural inhabitants would more confidently support and strengthen their ties to their own villages.

References


CHAPTER 10

Diversification of the Rural Economy:
A Case Study on Rural Industrialization in the Republic of Korea

By Dong-Phil Lee

Introduction

Rural industrialization has been an important policy issue in many developing countries because it is an important instrument to diversify the rural economy in terms of employment and income. The Republic of Korea also introduced its rural industrialization program as a strategy to reduce rural poverty and create a balanced regional economy.

From the perspective of the rural economy, rural industrialization is considered as a development policy that increases incomes of small farmers and develops more employment opportunities. The creation of off-farm job opportunities contributes to an increase in rural income and narrows the income gap both between rural and urban households and also among the farm households in rural areas.

From the standpoint of the national economy, rural industrial development contributes to balanced regional economic development. Rural industrialization can also serve as a policy instruments to control urban concentration resulting from industrial development.

The Rural Industrial Park (RIP) program is one of the most popular policy programs for rural industrialization in Korea. Although it is difficult to apply one country’s experience directly to another’s, the policy design and key factors of this program will be useful for countries with a large number of unemployed workers and poor rural infrastructure.

A Historical Review of the Korean Economy

To escape what was called “a vicious circle of poverty” in the Korean economy, the government launched an ambitious five-year economic

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* At the time of writing, Dr. Dong-Phil Lee was the Director of the Knowledge & Information Center at the Korea Rural Economic Institute (KREI).

1 This chapter largely depends on the following two papers: Kang, Jung-il (2001) and Choi, Jung-Sup (2001).
development plan in 1962 to foster import-substitution industries that produced such basic intermediate materials as cement and fertilizers. Later on, it promoted labor-intensive export industries such as textiles and plywood, which were internationally competitive because of cheap labor costs and capable of absorbing unemployed and under-employed human resources. Korea's per capita GNP increased from US $87 in 1962 to US $210 in 1969.

In the early 1970s, Korea experienced a new climate of protectionism, along with the worldwide stagflation caused by the first world oil crisis. Labor-intensive light industries faced fierce competition from other developing countries. These circumstances forced the Korean economy to modify its strategic objectives. The government induced industrial restructuring by promoting heavy and chemical industries such as shipbuilding, iron and steel, automobiles, machinery, and petrochemicals. Tax and financial incentives encouraged investment in these newly favored sectors. Exports increased rapidly, at about 40 percent per annum. The volume of exports rose from well below one billion US dollars in 1970 to 15 billion US dollars in 1979. This remarkable progress allowed Korea to emerge as one of the Asian newly industrializing economies (NIEs).

In early 1980s, the side effects of growth-oriented economic management became conspicuous. The second oil crisis and domestic political turmoil also took a heavy toll. Economic turnaround began when consumer price inflation, which had risen by 29 percent in 1980, dropped to single digits in 1982, and the current deficit narrowed significantly. Especially from 1986 onward, GDP growth accelerated swiftly and the current account balance posted a substantial surplus. This was due to the so-called “three-lows”: low oil prices, low international interest rates and the low value of the US dollar in terms of the Japanese yen.

As the Korean economy moved into the 1990s, the structural faultiness of its “high-cost, low-efficiency” industrial structure deepened amid a sharp increase in competitive pressures. Korean companies faced intense competition from foreign companies in both domestic and international markets, owing to the rapid growth of late-starter developing countries and the establishment of the World Trade Organization (WTO). GDP growth averaged 7.5 percent per annum in 1990-1996. In 1996, the current account deficit widened sharply to US $23 billion, equivalent to 4.7 percent of GDP. Total foreign debt also increased sharply from 29.4 billion US dollars at the end of 1989 to 104.7 billion at the end of 1996.

In early 1997, foreign currency liquidity conditions continued to worsen and the government had to turn to the International Monetary
Fund (IMF) to request standby funds. Nonperforming loans to financial institutions; repatriation of capital from Korea by foreign investors; heavy external debt taken on to finance the current account deficit and excessive reliance on short-term external borrowings; and the growing expectation of a massive depreciation in the Korean won all played a substantial part in the worsening foreign exchange situation.

In December 1997, the Korean government agreed to the IMF requirement that it would pursue macroeconomic stabilization and structural reform and accelerate trade and capital account liberalization. Unsound financial institutions were quickly shut down and public funds were injected into viable financial institutions, on the condition that they make intensive efforts themselves to cut staff and branches, recapitalize, and so on.

This structural reform affected the overall economy, including the agricultural sector. First, economic recession led to decreasing consumption of agricultural products, which pushed down the prices of agricultural products. Second, the devaluation of the Korean currency caused agricultural inputs to rise in price, which decreased farm management profitability. There were, of course, positive impacts like increasing exports of products such as ginseng, chestnut, fruits and vegetables, and the substitution of expensive imported products with domestic products. Interest rates also fell because of difficulties in getting capital for farming and refunding loans. On the whole, agricultural demand and supply decreased, which caused a decrease in farm household agricultural income. As a safety net, the Korean government introduced new policy measures such as direct payments to farmers who cultivated paddy land and sustainable agriculture that focused on self-produced food and energy-saving technology.

**Farm Household Income and Non-farm Activities in Korea**

Poverty reduction was one of the Korean government’s most important tasks in the 1960s. As a result of various government efforts, the population living in absolute poverty decreased from 40.9 percent in 1965 to 7.6 percent in 1991. The percentage of poor people in rural areas decreased from 35.8 percent in 1965 to 2.8 percent in 1991, while poverty in urban areas decreased from 54.9 percent to 8.7 percent in the same period.

Although the rural economy consists of both the agricultural sector and the non-agricultural sector, it is difficult to report on the current situation of the non-agricultural sector in rural Korea because of poor regional statistics. The comparison of farm household income with urban household income has obvious limitations in this paper.
Farm household income is defined as gross income from all the economic activities of families who are living together in the same farm household. It has three components: agricultural income, non-agricultural farm income and transferred income. Agricultural income is defined as the total value of agricultural products that are sold, transferred to others, or consumed by the household. Non-agricultural farm income consists of side-business income, wages, salaries, rent and interest, while transferred income consists of gifts, donations, subsidies, and the like.

Increasing farm household income through agriculture is obviously limited, since Korean farm households have small plots of arable land (1.2 ha on average), limited room for developing agricultural productivity with less-educated older farmers, and subsidized agricultural product prices under the trade liberalization paradigm. The Korean Government has therefore emphasized the promotion of non-farm income.

<table>
<thead>
<tr>
<th>Year</th>
<th>Farm Household Income (A)</th>
<th>Agricultural Income (B)</th>
<th>Non-farm Income</th>
<th>Transferred Income</th>
<th>Living Expenses (C)</th>
<th>Urban Household Income (D)</th>
<th>B/C</th>
<th>A/D</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>256</td>
<td>194</td>
<td>62 (24.2)</td>
<td>…</td>
<td>208</td>
<td>292</td>
<td>93.3</td>
<td>87.7</td>
</tr>
<tr>
<td>1975</td>
<td>873</td>
<td>715</td>
<td>158 (18.1)</td>
<td>…</td>
<td>626</td>
<td>786</td>
<td>116.1</td>
<td>111.1</td>
</tr>
<tr>
<td>1980</td>
<td>2,693</td>
<td>1,755</td>
<td>938 (34.8)</td>
<td>…</td>
<td>2,138</td>
<td>2,809</td>
<td>82.1</td>
<td>95.9</td>
</tr>
<tr>
<td>1985</td>
<td>5,736</td>
<td>3,699</td>
<td>2,037 (35.5)</td>
<td>977</td>
<td>4,692</td>
<td>5,058</td>
<td>78.8</td>
<td>112.8</td>
</tr>
<tr>
<td>1990</td>
<td>11,026</td>
<td>6,264</td>
<td>4,762 (43.2)</td>
<td>1,921</td>
<td>8,227</td>
<td>11,326</td>
<td>76.1</td>
<td>97.4</td>
</tr>
<tr>
<td>1995</td>
<td>21,803</td>
<td>10,469</td>
<td>11,334 (52.0)</td>
<td>4,403</td>
<td>14,782</td>
<td>22,333</td>
<td>70.8</td>
<td>95.1</td>
</tr>
<tr>
<td>1999</td>
<td>22,323</td>
<td>10,566</td>
<td>11,757 (52.7)</td>
<td>4,723</td>
<td>17,123</td>
<td>26,696</td>
<td>61.7</td>
<td>83.6</td>
</tr>
</tbody>
</table>

Note 1: Non-farm income includes transferred income.
Note 2: One US dollar is equivalent to 1,250 Korean won.
Non-farm income (including transferred income) increased from 4,762 thousand won in 1990 to 11,757 thousand in 1999. Major components of non-farm income were: salaries (43.3%), other wages (23.2%), and side-business income (21.1%). Salaries come from small and medium-size industries in rural areas, which include industries in the Rural Industrial Parks (RIP), agricultural product processing, and so on. Other wages come from irregular, temporary work in the construction, housing, and service sectors. Most side-business income comes from the operation of small village stores, restaurants, beauty salons, rice mills and the like. Side-business income is 49 percent in the service sector, 28.1 percent in commerce and manufacturing, and 14.5 percent in fisheries.

Living expenses of farm households, however, have increased from 8,227 thousand won in 1990 to 17,123 thousand in 1999, while agricultural income has increased from 6,264 thousand won to 10,566 thousand in the same period. Thus, most farm households could not meet living expenses with their agricultural income. Under the new free trade paradigm and the recession in the national economy, agricultural prices stagnated.
while there was a rapid increase in wages in the period 1990-97, widening the income gap between urban and rural households.

**Policy Framework and the Current Situation of Rural Industrialization**

*Definition of Rural Industry*

There are two definitions of rural industry in Korea: the “normative definition” and the “factual definition”. The normative definition is based on a preconception that rural industry should have a unique rural character. This means it should be located in rural areas and must have forward and backward linkages to agriculture, natural resources and rural residents. However, this normative definition is unrealistic because there are many manufacturing firms in rural areas that are not related to rural or agro-based industries. The factual definition includes all manufacturing activities and manufacturing firms participating in production activities in rural regions. However, this definition faces two questions: how to identify the boundaries of a rural area and how to classify manufacturing firms. According to the general understanding, “Eup” (rural towns) and smaller administrative units such as “Myon” (rural centers) and “Ri” (villages) are included in the boundaries of rural areas. All types of manufacturing firms with more than five full-time employees are classified as rural industry in this paper.

According to the above definition, rural industries account for 24 percent of the total number of firms in the economy, 28.2 percent of employment, and 19.3 percent of total sales. Although the rural sector does not have a very big share of total industry, both the number of firms and the employment levels in rural industries have been growing faster than the national average for at least the last 10 years. Rapid growth has been closely associated with the implementation of programs promoting small and medium-size industries, policies for industry reallocation, and structural reforms in agriculture to strengthen non-farm activities.

**Institutions and Programs for the Development of Rural Industry**

Rural industry can be enhanced through rural industry development programs and industrial decentralization policies. Industrial decentralization implies dispersing industrial facilities concentrated in and around the big urban areas and moving them to provincial regions. However, rural industry can also be categorized as parts of the regional industry, because the concept of “region” includes all provincial cities (excluding major ones) and rural areas.
Economic development in Korea depends heavily on industrial development, which has brought both rapid economic growth and regional inequalities. The first Comprehensive National Land Development Plan (1970) was introduced to reduce the factors that attract people to large cities and obtain balanced development between urban and rural sectors. The Local Industrial Development Law (1970) and the Industry Reallocation Law (1977) were enacted to promote regional industrialization and industrial decentralization.

The Local Industrial Development Law (1970) and the Industry Reallocation Law (1977) were enacted to promote regional industrialization and industrial decentralization. The Balanced Regional Development and Local Small and Medium-size Industry Promotion Law (1994) was enacted to promote non-agricultural sectors in the less-favored rural areas. Under this law, the Korean government supports the expansion of infrastructure in remote rural areas and the construction of an “industrial complex” which includes not only industrial estates but also storage and market facilities in the same sites.

Besides these land development and decentralization policies, rural industrialization programs were also introduced. The Farm Household Side-business Promotion Program (FHSP: 1968) and the Saemaul Factory Promotion Program (SFPP, 1970) were introduced to increase non-farm income of farm households. The FHSP focused on the promotion of side businesses of farm households, rather than modern business operations. However, in 1990 the title of this program was changed to the Regional Specific Product Promotion Program. The SFPP was designed to create non-farm opportunities in rural areas under the slogan, “one factory for one Myon.” For the purpose of overcoming problems with location of the Saemaul Factory Program, the Rural Industrial Park (RIP) Development Program was introduced in 1984. According to the Rural Income Source Development Law (1983), the government supports the construction of small industrial estates in rural areas and provides various incentive packages for each firm's operations at the RIP. This law reformed the Rural Development Special Treatment Law (1990) to expand its coverage to various rural non-farm activities, including rural tourism and agro-progressing.

**The Rural Industrial Park: Program Design and Performance**

The Rural Industrial Park (RIP) Development Program is one of the most representative rural industrialization strategies in Korea, offering favorable incentive packages. The ultimate goal of the program is to raise non-farm income among rural residents, vitalize rural economy and narrow the developmental gap between urban and rural areas.

Since the RIP development program was basically designed to overcome locational disadvantages, integrated incentive packages were pro-
vided. Rural areas (towns and counties) with less than 100,000 people (excluding industrialized areas and suburbs of large cities) are selected as target areas for establishing RIPs. The target areas are divided into: general areas, additional assistance areas, and special assistance areas. There are different levels of financial support for construction costs, that can cover up to 70% of total cost for special assistance areas, 50% in the case of general assistance areas, and 30% in general assistance areas.

**TABLE 2: Incentives for firms working at RIPs**

<table>
<thead>
<tr>
<th>INCENTIVES FOR FIRMS WORKING AT RIPS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Support</strong></td>
</tr>
<tr>
<td>• Capital loan for machinery and facilities (700 million won) and operation (200 million won) at 7% interest per year</td>
</tr>
<tr>
<td><strong>Tax Reduction</strong></td>
</tr>
<tr>
<td>• National tax (income tax, etc.) exemption for 4 years and 50% reduction for 2 more years</td>
</tr>
<tr>
<td>• 10% special depreciation</td>
</tr>
<tr>
<td>• Local tax exemption for 1 year and 50% reduction for 5 more years.</td>
</tr>
<tr>
<td><strong>Simplicity of Administration</strong></td>
</tr>
<tr>
<td>• Simplify various administrative approvals and permissions related to business (deregulation)</td>
</tr>
</tbody>
</table>

Manufacturing firms can be located at RIPs only after passing an environmental evaluation. Favorable loans and subsidies are provided for the construction of RIPs and business operations, the government provides various kinds of tax reductions for firms working at RIPs, and regulatory administrative procedures are simplified, as shown in <Table 2>.

The RIP program was carried out through cooperation among various government agencies: Ministry of Trade, Ministry of Industry and Energy (MTIE), Ministry of Agriculture and Forestry (MAF), Ministry of Construction and Transportation (MCT), and Ministry of Environment (MOE). MCT helps to identify the location of park sites and MAF provides financial support to construct the industrial parks, while MTIE provides financial support for the firms in the RIP. Local governments also share certain parts of the responsibilities for the RIP’s construction and recruiting firms, which are located in their own administrative territories. When the nominated RIP gets more than three appropriate firms that have passed the environmental evaluation, the local governments can request support from the central government for the construction of industrial parks.
Target areas for RIP development are classified into three different types based on the level of industrialization of the area and are set up within certain maximum limits. The 121 target areas are classified into 25 general assistance areas, 48 additional assistance areas and 48 special assistance areas. The maximum size of RIP developments was determined by the following criteria; 330,000 square meters for the general area, 660,000 square meters for the additional area, and 990,000 square meters for the special area.

Government subsidies per pyung (equivalent to 3.3 ) for RIPs range from 20,000 won for a general area to 50,000 for a special area, while loans per pyung range from 10,000 won for a general area to 20,000 for a special area. A RIP established only for large-scale industry can receive relatively small amounts of government support, while a specialized RIP for the agricultural product processing industry can get as much support as a special area.

**Current Situation**

By the end of October 2000, a total of 295 RIPs had been developed. Since then, a total of 4,413 ha. have been nominated as industrial estates. About 3,414 ha. (96 percent of total sites for sale) were sold by the end of 2000. Since an average of three years is required to develop a RIP, the rate of sales for recently-nominated and/or remote RIPs is relatively low. Most are still in the construction or firm-recruiting phase.

Since the program was designed to absorb surplus or unemployed labor in rural areas, RIPs are, on average, relatively small compared to other industrial estates, with about 12 ha., 14 contract firms and 353 employees. Of the 4,133 contract firms (a provisional agreement between the businesses and local government to buy and sell the industrial sites of the RIP), 3,659 actually entered the RIP by the end of 2000 and only 3,162 were actually operating.

**Evaluation of Performance**

Although RIPs are not a large proportion of national industry, they have an important role to play in the industrialization of rural areas. For example, RIPs provide a collective industrial site with rational use of rural land. Furthermore, the RIP program not only promotes economic efficiency in the construction and operation of businesses, but also the environmental sustainability of industrial development through collaboration in pollution management practices. The RIP development program also provides favorable incentive packages to compensate for the disadvantages of rural locations.
The RIP construction cost per pyung (= 3.3_) was estimated at about 89,000 won; however, RIP industrial land was sold at 86,000 won per pyung, because of government financial support such as subsidies (20-50,000 won per pyung) and favorable loans (10-20,000 won per pyung) for the construction of industrial estates. RIP industrial land has recently increased to 95,000 won per pyung, but this is still lower than the approximately 394,000 won paid at other industrial estates in rural Korea.

Ninety-nine percent of the firms in the RIP program are small and medium-size industries and only 1 percent are large industries\(^2\). Most firms operating within the RIP program are new businesses (51.6 percent of all contract firms). The RIP acts as an instrument in the promotion of balanced regional development: 32.5 percent of RIP contract firms have reallocated from urban areas. These firms were previously located in the suburbs of the capital (23 percent), other large cities (32 percent) and other regions. This had made the program an important component in the promotion of rural industrialization through industry reallocation and the promotion of small and medium-size industries.

**Performance of the RIP Program in Economic Terms**

The RIP program helped create a total of 103,513 jobs in rural areas in 1984-2000. Local residents account for 67 percent of total employment and 31 percent of workers come directly from farm households in rural areas. 16.3 percent were office workers, 9.0 percent engineers, 53.5 percent technicians, and 21.2 percent physical laborers. Many local residents perform simple tasks and do physical work for low wages, reflecting their lack of technical training and lower educational background.

RIPs have additional economic impact on the rural economy because they involve the construction of industrial sites and factories. It has been estimated that about 44 percent of spending on industrial estate construction and 36 percent of spending on factory construction remain in the local areas. About 70-80 percent of total wages and salaries also remain in the areas where RIPs are located.

Many areas with RIPs are experiencing additional effects, such as: (i) vitalization of trade and merchandise sectors at the local level; (ii) increase in sales of service industries including restaurants, hotels, and transportation; (iii) an increase in deposits at local banks, (iv) an increase in rental rates for housing; and (v) construction of new apartments. Although

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\(^2\) In Korea large industry is defined as a manufacturing industry with more than 300 employees, and small and medium-size industry with 5 to 299 employees.
there is no direct link between these activities and the operation of RIP industries, many of these changes are certainly related.

**Problems and Future Challenges**

In spite of the performances of the RIP program, critics claim that problems remain: (i) sales of developed industrial sites are slow, (ii) there is a large turnover of firms operating RIPS, (iii) the regional economic impact of the RIP development is lower than expected. Although these points are true in part, some critiques are based on a misunderstanding of the expected performance of the RIP program.

First of all, the rate of sales for developed RIP land is as high as 96 percent, while under the National Industrial Estate program and Local Industrial Estate program the corresponding rates are 81 percent and 75 percent. Of course, some RIPS are selling badly in less-favored areas. Since RIP construction begins after more than three contract firms have signed on (50 percent of the site’s sales in advance), it is wrong to say that the rate of RIP lot sales is low in general. It is true that 14 percent of all firms in the RIP had shut down business by 2000. But the cause may be more related to the recession in the national economy in those years, rather than a weakness in the implementation of the whole development program.

It may also be true that the RIP program has a more limited economic impact when compared to agribusiness or other regional resource-based industries, but there are no other rural development programs that have reached the 67 percent local employment rate achieved by the RIP. Although it is difficult to fully assess the impact of the RIP Program on the different aspects of rural life, it is true that the demand for construction of new RIPS in recent years has decreased to 1-2 units per year from the 30-40 units requested every year in the late 1980s. This may be due to changing socio-economic conditions in Korea. For instance, the merits of RIP location have largely disappeared due to increasing wages and land prices in rural areas. Recent policies of deregulation in the use of land around large cities also hinder the relative advantages of the RIP program.

Further development of the RIP program depends on the way it is able to resolve some of the following challenges: First, the location and size of RIPS should be revised to generate larger economies of scale and balanced regional development. Although most counties have two or three RIPS, it is unclear whether their location and size are optimal. Second, time requirements from the nomination phase to the construction and operation phases of the RIP should be reduced. The current 2-3-year requirement is too long to keep up with changes in the business
environment. Third, the types and facilities of RIPs should be diversified, since they all have similar sizes and characteristics in terms of physical structures, business lines, and management (as well as the same name: “Nong Gong Dan Ji”—“RIP” in Korean). Fourth, administrative procedures should be simplified, from the nomination and development of the sites to the recruitment and management of businesses. The role of local government should also be expanded to provide higher quality of services to businesses. Finally, the policy program should be modified to enhance links between RIP development and the dynamics of the rural economy. Training and job creation for rural residents are particularly critical factors to enhance rural employment.

Concluding Remarks

Rural industrialization was introduced in Korea as a way to diversify the rural economy and increase non-farm income among small farm households. Although the average size of arable plots of land is small, agriculture is the core of rural life in Korea. Therefore, development of non-farm income opportunities through rural industrialization is very important to supplement farm income and foment balanced economic development across regions. The RIP program has provided a solid foundation for the development of rural industries in Korea. Every county has more than two industrial areas (RIP) with well-furnished infrastructure. RIPs have become the center of non-farm activities in rural areas. Four key factors can be singled out to explain the success of this program in a short period of time:

○ **First**, the existence of planned rural industrialization strategies to support the success of RIP development. All local governments have to make proposals to develop RIPs based on guidelines provided by the central government, which include strong coordination among various administrative organizations. This planning-based, integrated approach allows close relationships among land development, industrial design and the actual operation of rural industries.

○ **Second**, comprehensive support programs, including the provision of industrial sites, favorable subsidies and loans, tax reduction and simplification of regulatory and administrative procedures were also key to the success of RIPs.

○ **Third**, the creation of differential incentive systems based on the socio-economic characteristics of each region. For example, government support for RIP construction differs (e.g., special assistance
areas get more than twice the subsidies and loans allocated to general assistance areas).

- **Finally**, the involvement of local governments from the nomination of a potential RIP to the recruitment of business firms; sale, promotion and construction of the industrial site; and even the management of RIPs.

**References**


Lee, Dong-Phil, et. al., 1995. *Developmental Strategies for the Non-Agricultural Sector in the Rural Korea*.


CHAPTER 11

Diversification Of The Rural Economy: Case Study Of Thailand

By Somporn Hanpongpaandh

Introduction

Thailand has enjoyed a certain level of social and economic progress since the 1960s, partly the result of flourishing agriculture. For 40 years Thailand has experienced strong economic growth, reaching the double digits in the 1990s. The economic crisis in 1997 produced large negative growth rates until the much-expected recovery in late 1999.1

Rural development has been a top priority since the 1970s. Earlier policies emphasized support to areas well endowed with natural resources and high development potential, but resulting inequalities shifted attention to areas with high incidence of poverty.2

In the 1960s and 1970s agriculture was the “engine of growth” of the Thai economy and the main source of employment and income. Its share of GDP was as high as 40 percent in 1961-1965 and although this proportion has been decreasing (to 10.6 percent in 1998), the agricultural labor force still accounts for 50 percent of the labor force in the country—the industrial sector absorbs 20 percent and 30 percent are in services. During the dry season from January to March the industrial sector and services absorb a larger proportion: 25 and 36 percent respectively.

Table 1. Agricultural and Non-Agricultural Rural Households

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>’000</td>
<td>%</td>
</tr>
<tr>
<td>Agricultural Households</td>
<td>4,341</td>
<td>70.7</td>
</tr>
<tr>
<td>Non-Agricultural Households</td>
<td>1,801</td>
<td>29.3</td>
</tr>
<tr>
<td>Total</td>
<td>6,142</td>
<td>100.0</td>
</tr>
</tbody>
</table>


1 At the time of writing, Dr. Somporn Hanpongpaandh was the Deputy Team Leader of the ADB Technical Assistance Project No. 3261 in Thailand’s Ministry of Agriculture and Cooperatives.
Table 2. Number of Farms and Farm Size

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Farms (Million)</td>
</tr>
<tr>
<td>Northeast</td>
<td>2.248</td>
</tr>
<tr>
<td>North</td>
<td>1.268</td>
</tr>
<tr>
<td>Central</td>
<td>0.877</td>
</tr>
<tr>
<td>South</td>
<td>0.779</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.173</td>
</tr>
</tbody>
</table>


As land is becoming scarce, agricultural production has shifted from extensive to intensive farming systems as a result of increasing public investment in infrastructure and provision of support services, and the use of better inputs by the private sector. Efforts are underway to diversify the rural economy to generate higher income from production and reduce the high risk and uncertainty naturally involved in agricultural production. Diversification started with a move away from the traditional high dependency on rice, to include other crops like rubber, maize, cassava and tropical fruits. Diversification continued with the introduction of livestock and fish farming to expand agricultural exports in the world market. Thailand has become a major exporter of tapioca, frozen poultry and fresh and frozen shrimp.

The introduction of agro-industrial activities started in the mid-1980s when the emphasis was on supporting manufacturing and services. Through governmental agencies and NGOs, the government has introduced several projects to support the growth of agro-industrial products to supply the domestic market and also for export. Equity concerns have led the government to give priority to the development of micro enterprises, as a way to improve the income of the rural poor. The economic crisis in 1997 demonstrated the capacity of the agricultural and rural sectors to absorb high levels of reverse migrants.

Creation of Non-farm Employment Opportunities

Traditionally, rural villagers engaged in non-farm employment on a temporary and part time basis, usually during the dry season when cropping is not possible in the rain-fed farming areas. Rural laborers temporarily migrated to urban areas—mainly Bangkok—for short-term employment. Among the rural people from the four geographical regions of the country, those from the low-productive, low-income northeast have been more
engaged in non-farm employment. They were typically employed seasonally as manual laborers in households and construction sites. With the expansion of the industrial sector, rural workers found more permanent employment in factories, the service sector and commercial farms. Others found new sources of income in self-employment—occupations such as food vendors and drivers of taxis and tuk-tuks (three-wheels vehicles). In the 1980s, a high labor demand in the Middle East drew a large number of rural workers from Southeast Asian countries, including Thailand. Overseas remittances became a major source of income for rural families.

Rural-urban migration in the 1980s was insufficient to absorb the high incidence of under-employment and unemployment in the rural sector. The action plans contained in the Fifth Plan of 1982-1986 aimed at:

- Creating jobs by supporting the decentralization of the industrial and service sectors to increase labor absorption in rural areas.
- Supporting the diversification of agriculture and industrial production to increase crop cultivation and agro-industries.

The Rural Employment Generation Program (REGP)³ was one of the programs with largest coverage in 1985-89. Its underlying strategy was to accelerate rural development and reduce rural-urban inequalities. It has been argued that the impact of this kind of program on income distribution and asset ownership has been minimal, but such programs have been relatively successful at creating employment opportunities for the poor, thereby reducing the incidence of poverty.

It is estimated that in 1991-95 up to 70 percent of all migrant workers were permanent migrants, seriously depleting the human resource base of the rural sector. Available data show ever-increasing migration rates, reaching 992,000 in 1991-1996. Rural areas increasingly depend on remittances.

Table 3. Rural-Urban Migration

<table>
<thead>
<tr>
<th>Average Annual Rural-Urban Migration of Agricultural Labor Force</th>
<th>1976-80</th>
<th>1991-95</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>’000</td>
<td>%</td>
</tr>
<tr>
<td>Seasonal</td>
<td>336.5</td>
<td>80.0</td>
</tr>
<tr>
<td>Permanent</td>
<td>84.1</td>
<td>20.0</td>
</tr>
<tr>
<td>Total</td>
<td>420.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>


The absolute number of people employed in agriculture has gradually declined since the late 1980s. Most migrants were in the 15 - 24 age group. While general migration more than doubled between 1980 and 1993, permanent migration increased 800 percent. In 1997, the economic crisis generated a large number of workers migrating back to rural villages. Reverse migration—from urban to rural areas—could be as high as 1.2 million, with an increase of foreign workers in the farm sector estimated at around 130,600 in April 1997.4

An impact evaluation done in four provinces of Northeast Thailand5 showed that returnees coming back to their villages declared making use of the skills they had learned in Bangkok in their own small businesses back home; and a few became subcontractors to larger factories in the city. Another study on the impact of reversed rural-urban migration in Thailand6 reported that remigration could be as high as 1.2 million, representing 16 percent of total unemployment in the country in January 1998. The Department of Local Administration of the Ministry of Interior reported that 252 out of 794 districts (32 percent) had experienced remigration levels exceeding 5,000.7 Apart from remigration, the study included other factors affecting non-farm employment in rural Thailand. The lack of enforcement of labor regulations in the rural sector; the lack of skills and retraining programs; widespread unemployment and poverty in Northeast Thailand; high youth unemployment and the need for specific policies to address the issue of unemployment, aggravated by the seasonal nature of on-farm employment in Thailand.

Policy recommendations derived from the study included:

○ Increasing funding to natural resource and conservation management projects that are labor intensive;

○ Allocating investment capital, credit, technology transfer and training to improve the productivity of traditional agricultural systems;

○ Promoting diversification of land-use and increasing the competitiveness of cash cropping and livestock production systems;

○ Improving the structure and performance of cooperatives and community-based organizations (CBOs), making them more professional and market oriented to help stabilize employment;

4 Thailand Agriculture Sector Needs Assessment Study, Office of Agricultural Economics, Bangkok, November 1998, paragraph 327.

5 Evaluation of OECF Financed Projects in Northeast Thailand.

6 Thailand Agriculture Sector Needs Assessment Study, op cit, paragraphs 331-348.

7 The number is regarded as significant, given the average population of the districts.
Increasing availability of non-farm credit to promote agro-processing and rural agri-business in cottage-based, small- and medium-scale enterprises;

Considering fiscal incentives for new enterprises in rural areas and enterprises relocating to rural areas and small towns.

Developing an emergency plan to deal with the problem of bad debt in small- and medium-scale enterprises; and

Encouraging the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Government Savings Bank (GSB) and commercial banks to move aggressively to rural areas, especially depressed locations, as a way to use excess deposits.

In addition, the following recommendations were given to cope with reverse rural-urban migration:

Retraining programs in crop propagation, rubber tapping, repair of farm machinery, mushroom cultivation, bee-keeping, silkworm rearing, orchard management, and pruning and fruit harvesting;

Training in off-farm occupations, including food processing, food preservation, handicrafts at the household and enterprise levels, and eco-tourism;

Training in small agribusiness and marketing enterprises; and

Supporting the establishment of small- and medium-scale rural enterprises to improve labor absorption.

The Ministry of Labor and Social Welfare has implemented many of these recommendations: organizing training courses, establishing national standards for labor skills in 43 professional fields and increasing private sector participation in information and training programs. Inadequate regulation of support programs has, unfortunately, generated abusive practices by private agents. Many rural workers have documented cases of high commissions paid to unauthorized agents for nonexistent or low-wage jobs.

The influx of cheap labor from neighboring countries has led to the establishment of a system of quotas to limit the number of legal immigrants allowed into selected provinces, to prevent high levels of unemployment among local residents.
Agro-Industry and Agro-Exports

The rapid growth of the agro-industrial sector has been an important source of employment and income for rural workers. In the old days, rice mills represented the most common form of agro-industry in rural Thailand—a leading rice-exporting country for many years. Diversification of the rural economy has increased the number of exporting crops to include: shrimp, rubber, fish, wood, fruits, sugar, cassava, poultry cuts and cotton.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shrimp and products</td>
<td>1,495.89</td>
<td>1,393.51</td>
<td>1,682.53</td>
<td>2,129.80</td>
</tr>
<tr>
<td>Rubber and products</td>
<td>1,820.24</td>
<td>1,831.53</td>
<td>1,836.53</td>
<td>2,036.49</td>
</tr>
<tr>
<td>Rice and products</td>
<td>1,120.07</td>
<td>1,175.38</td>
<td>1,501.84</td>
<td>1,987.56</td>
</tr>
<tr>
<td>Fish and products</td>
<td>700.33</td>
<td>668.51</td>
<td>895.24</td>
<td>1,145.11</td>
</tr>
<tr>
<td>Wood and products</td>
<td>382.27</td>
<td>385.40</td>
<td>465.84</td>
<td>632.07</td>
</tr>
<tr>
<td>Fruits and products</td>
<td>379.47</td>
<td>462.38</td>
<td>484.62</td>
<td>444.51</td>
</tr>
<tr>
<td>Sugar and products</td>
<td>701.78</td>
<td>784.53</td>
<td>763.60</td>
<td>653.20</td>
</tr>
<tr>
<td>Cassava and products</td>
<td>344.47</td>
<td>379.87</td>
<td>408.60</td>
<td>375.04</td>
</tr>
<tr>
<td>Poultry and products</td>
<td>214.71</td>
<td>201.89</td>
<td>243.36</td>
<td>369.76</td>
</tr>
<tr>
<td>Cotton and products</td>
<td>240.02</td>
<td>218.29</td>
<td>323.29</td>
<td>376.73</td>
</tr>
</tbody>
</table>


One of the most successful agro-exporters in Thailand is the Charoen Pokaphand Company (commonly known as CP). CP is at present the biggest dealer of animal feed in the world (representing 35 percent of the world market), with 105 plants in China and 17 in Thailand, plus a number of new plants in the various neighboring countries in the Mekong Sub-region. The company runs nine business groups in 20 countries, including Myanmar, Cambodia, and Vietnam with US $86.99 million invested in Vietnam, US $3.91 million in Myanmar, and US $4.8 million in Cambodia in 1998. Most of CP’s agricultural investments are in the production and marketing of hybrid corn, feeds for livestock and fish; chicken and pig breeds; equipment and medicines for animals.

Several other large and medium food-processing companies have emerged recently. These include manufacturers of animal feed, canned
and other forms of packaged food and fruits; particularly Thai spices, *halal* food for export to Muslim countries, and enriched food, sanitary and cosmetics made from a large number of medicinal herbs.

Since the early 1960s the Thai government promoted foreign direct investment in large-scale industries to assemble consumer goods for export and to substitute for imports. The presence of these firms led to the promotion of small and medium industries (SMIs) producing parts and components for them. Devaluation of the baht against the US dollar in 1984 made Thai agro-industrial products more competitive in international markets, leading to the expansion of the SMIs associated with them. In addition, subcontracting arrangements between assemble firms and SMIs have become common in the market. At the policy level, the Fifth and Sixth National Economic and Social Development Plans outlined several measures for the explicit promotion of small-scale industries.

The Overseas Economic Cooperation Fund (now Japan Bank for International Cooperation) has been providing financial resources to small and medium-size private companies through a corporation that extends soft loans to export-oriented companies.

Rural households are producing a variety of agro-industrial products to supplement income from agriculture, especially preserved food and fruits in the form of snacks and healthy foods, which have good markets—fried shredded mushroom or mushroom sticks; chips made from durian, jack fruit, and taro; and dietary supplements and health food, which are sold at higher prices in various forms: dried, shredded, powdered, pellets, capsules and oil.

Increased demand for health and cosmetic products, in particular those made from medicinal herbs, has opened up several new agro-industry product markets for medicated soaps and shampoo made from herbs like lemon grass, skin of mangostine and Anchan flower.

Bio-diesel, a substance made from mixing coconut oil and kerosene, has recently been introduced to replace diesel. The sharp increase in fuel prices led a coconut farmer at Tabsagae in Prajuab Khirikhan to experiment with bio-diesel: a twenty-to-one mixture of coconut oil and kerosene that can be used as fuel for cars, motorcycles and agricultural machinery. The Engineering Faculty of Chulalongkorn University has confirmed its applicability. At 4 baht (about 9 US cents) per liter, it is much cheaper than diesel fuel, helping to boost demand.

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The Royal Initiatives Projects

Thirty-two years ago, in 1969, His Majesty the King visited a hill-tribe village in Chiang Mai, in the North of Thailand. Hearing that the hill-tribe farmers could earn as much from producing peach as from opium, he used his own funds to start the Royal Projects. Later, the government and international organizations contributed funds to the Royal Project Foundation.

In 1995, the Royal Project Foundation funded a large number of development programs, benefitting 295 villages and 14,109 rural households. Marketing-related projects include research and development on post-harvest loss prevention, transportation, packaging, processing and marketing. Research and development of food processing aims to make use of the surpluses produced, while increasing their value added through appropriate processing. Three food-processing plants have been constructed, two in Chiang Mai and one in Chiang Rai. The Royal Projects have marketing outlets in Bangkok and Chiang Mai, under the “Doi Kam” brand name.

The fresh and dried food and flower products marketed under the Royal Projects include 54 items produced from vegetables (including head lettuce, celery, parsley, asparagus, turnip and artichoke); 17 items from medicinal herbs (angelica, thyme, basil sweet, among others); 17 items produced from flowers (gladiolus, gypsophila, carnation.); 15 items from fruits (Japanese apricot, peach, plum); 23 varieties of potted plants, and 39 derivatives of dried flowers. Processed fruits and food take the form of pastes (rosset paste, chrysanthemum paste), juices, honey, jams, dried fruits, powders, bread, candy and several Thai sweets. Income-generating handicrafts include hats, bamboo silk fans, vases, rattan products, window frames, Christmas wreaths and umbrellas.

The Thailand Research Fund (TRF)

The TRF was established nearly a decade ago under the Office of the Prime Minister. Its major objective is to promote, disseminate and use of research in an efficient and sustainable way to promote development. One important area of research is high-quality fruit processing, for example durian chips and high-quality pickled mango, which can be kept at room temperature for as long as six months. Other research projects include management alternatives for successful food processing; development of naturally dyed cotton cloth for women’s groups; development of models for villages to mobilize their own funds; and development of eco-tourism.


Central Market Cooperatives Program

In order to increase the sale of products from cooperatives, the Ministry of Agriculture and Cooperatives, through the Cooperatives Promotion Department, initiated a program to promote the marketing of farm products among members of cooperatives. A total of 1,000 central cooperative markets at the sub-district (Tambon) level will be established all over the country. In addition, a number of plant-building initiatives were promoted: the construction of rice mills, smoked rubber plants, and animal feed manufacturing plants among others. Eight regional central cooperative markets are meant to act as regional outlets for the products of 770 central cooperatives scattered around the country. The project includes the creation of a central depot outside Bangkok, with appropriate packaging facilities and e-commerce capacity. Commercialization centers also sell handicrafts such as personal lunchboxes (kra-tip-kao), hammocks made from water hyacinth, wood furniture, pottery, and other products.11

Micro-Enterprises and the Creation of Productive Linkages/Clusters in Rural Areas

While the rural sector in Thailand is agriculturally based, income from non-farm enterprises is gaining importance among rural dwellers. Some studies estimate that as many as 30 to 50 percent of the rural labor force earn income from non-farm activities. The rapid growth of non-farm rural activities is partly explained by the active role of the government and NGOs, which have implemented training projects, promoted rural credits and the creation of micro-enterprises.

The Department of Community Development has encouraged rural villagers to produce for local sale and self-consumption. Success stories of women’s groups producing and marketing a wide variety of merchandise are regularly shown on television. These include projects for the production of chili paste by a group of housewives in a rural village in the south of Thailand; or village-scale production and sales of snack and processed food, artificial flowers used at funerals, and dolls for children.

The Silapacheep Program

H.M. the Queen of Thailand has long provided rural villagers all over the country with training in the skills of traditional craftsmanship. The

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program, known as Silapacheep—or artistic profession—also provides seed money for rural villagers to obtain necessary inputs and to reach the market. Among hundreds of handicraft items produced, the luxurious ladies’ handbag made of a water grass, called ‘Li Pao’, is one of the most outstanding and have become a highly valued export item from which rural women earn much more than from any agricultural product.

The Lemon Farm Cooperatives
In 1998, a joint venture between the Bangchak Petroleum Public Limited Corporation and the Crown Property Bureau was initiated. The Monkhol Chai Patana Co. Ltd. set up the "Lemon Farm Cooperatives" to serve as the marketing outlets for selected products from rural communities. Using the Lemon Green mini-mart attached to gas stations as a model, several mini-marts were established. The major differences between the two are that the Lemon Green mini-marts are commercially operated while the Lemon Farm Cooperatives assist the participating rural poor in supplying both raw materials and finished products to the Lemon Farm mini-marts. The Lemon Farm Co-ops also promote the welfare of rural producers. They provide training and promote chemical/toxin-free vegetables, fragrant rice, sugar cane, pork, fish, honey; cookies made from herbs and toxin-free cereals; food high in fiber, and healthy snacks; sanitary products like soaps and shampoo made from herbs; hand-woven cloth from the northeast; the international all-purpose towel (pha-kow-maa), and dining table cloths. They also promote exercises and martial arts to promote healthy lifestyles among rural residents and the absorption of the 7 percent value added tax for rural producers.

The Lemon Farm Co-ops now have 23,000 members/shareholders in 76 provinces. Lemon Farm mini-marts serve as direct market outlets for products from 4,000 families in 300 rural communities in 50 provinces. In 2001, the plan was to bring the total number of mini-marts to 11.

Policies for the diversification of the rural economy
Current efforts to promote non-farm employment opportunities, promote agro-industrial activities and increase agro-exports through micro-enterprise development have generated additional opportunities for Thailand and created an environment where further diversification of the rural economy is a high priority on the policy agenda.

The Thailand Agricultural Sector Needs Assessment submitted to the Asian Development Bank in November 1998 proposed the following measures to redirect government policy.12
Restructuring agricultural output to create employment and increase income in rural areas through incentives to promote new enterprises in rural areas and strengthen existing ones.

Increasing foreign exchange earnings by promoting agro-business and food production for export.

Increasing labor absorption by improving performance of cooperatives and community-based organizations, making them more market-oriented to stabilize their employment base;

Increasing availability of non-farm credit for agro-processing and rural agro-business in cottage-based, small- and medium-scale enterprises;

Providing fiscal incentives for enterprises to relocate to rural areas and small towns;

At the same time, the government initiated a restructuring process to better support rural development, emphasizing polices of self-reliance among farmers and activities that help rural residents supplement their income with year-round off-farm activities. Two programs that represent new thinking in Thailand with respect to the diversification of rural development are:

**The One-Million-a-Village Fund**

The One-Million-Baht-a-Village Fund was officially launched on October 1, 2001. This fund will cover all 7,000 villages in the country. The program resembles an earlier project developed by the Center for Integrated Rural Development in Asia and the Pacific (CIRDAP). Participating villages will have access to seed resources worth US $10,000 – 30,000 to fund productive projects proposed by villagers through a participatory process.

**The One-Village-One-Product Concept**

Taken from a similar project in Japan, the project one-village-one-product is being tested in selected rural villages in Thailand. The idea is that by concentrating on the production of one single product villages may earn higher income than through the current production of conventional

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13 Restructuring and Role Adjustment of MOAC, Ministry of Agriculture and Cooperatives and the Civil Service Commission (English version), January 2000, p. 3.
products. The project started operations in May 2001 in 200 tambons (subdistricts)\textsuperscript{14}. A subcommittee selects one product and presents its proposal to villagers for approval; the next step involves technology transfers and quality control procedures, the creation of processing plants and marketing centers.

The rural economy in Thailand has demonstrated an enormous capacity to absorb short-term economic shocks. The financial crises of 1997 generated a flow of, at least, 1.2 million reversed migrants who were successfully and peacefully absorbed by the rural sector. Diversified rural development is perceived as the only way to secure the long-term socio-economic and environmental sustainability in rural areas.

\textsuperscript{14} The Matichon Daily, Wednesday 9 May, 2001, Page 8.
PART 3

Povert Reduction Programs and Rural Development:
Informal Credit Markets and Microfinance
CHAPTER 12

Municipal Savings and Loans Institutions: Rural Microcredit in Peru

By Felipe Portocarrero Maisch*

Introduction
This chapter analyzes the recent experience of Municipal Savings and Loans Institutions (CMACs) and their successful development to become the most important formal microcredit providers in rural Peru. CMACs have made important achievements in terms of outreach and sustainability, providing microfinance services to poor households.

The recent development of microfinance in Peru
In the last decade, the implementation of a wide-ranging financial reform, the stabilization of the economy and the growth experienced in 1992-97 generated a marked increase of financial savings and total credit to the private sector. This development temporarily came to a halt in 1999-2000 as a result of the financial crisis of emerging markets and the recession of 1998-99.

The overall favorable context of the 90’s induced a rapid development in microfinance and made Peru one of the leading countries in Latin America. At the end of 1999, credit outstanding to microenterprises reached US $355.1 million, with 279,154 clients and an average outstanding loans of US $1,272 per borrower 1, equivalent to 54.3% of per capita GDP. This shows the vast reach of the microfinance market in Peru.

Specialized institutions account for 56.8% of the portfolio of microenterprise loans and reach 84.9% of outstanding clients.2 Among specialized institutions, CMACs are the most important microcredit intermedi-

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* At the time of writing, Dr. Felipe E. Portocarrero Maisch was a Senior Consultant with LFS Financial Systems GMBH, Berlin and Lima

1 Total credit outstanding to microenterprises at the end of 1999 was equivalent to 2.5 % of total credit to the private sector, cf. BCR, 16.02.2001, Nota Semanal, p. 11. Like in other countries in Latin America, lending to medium-size and large enterprises concentrates 84.8 % of the total portfolio of the banking system, cf. SBS, 31.12.1999, Información Financiera Mensual, p. 119.

2 Those institutions include MIBANCO, the CMACs, CRACs and EDPYMES that concentrate on credits to microenterprises, as well as Financiera Solución and Banco del Trabajo; the last two entities grant consumer and microenterprise loans, as their main products.
aries, accounting for 42.2% of the portfolio and 40.1% of microenterprise borrowers. They are a central figure in regional markets, operating outside the metropolitan area of Lima (which accounts for 30% of the total population of Peru and generates 50% of its GDP).

The CMACs

The institutional setting

At present, 13 CMACs operate in Peru. The first was established in Piura in 1982 and the last in Chincha in 1997. By law these institutions operate outside the area of metropolitan Lima. In November 2000 they employed 1,181 persons and had a network of 70 branches in the main cities of Peru providing financial services to the urban and rural population.

The CMACs are public enterprises of provincial municipalities; they enjoy economic, financial and administrative autonomy. The Board of Directors of the CMACs represents the institutions, approves the business guidelines and supervises implementation. The Board has no executive faculties; it is composed of seven members: three elected by the municipal owner and four representatives from civil society, such as the Church, the Chamber of Commerce, the Banco de la Nación and the local Association of Small and Micro Entrepreneurs.

The CMACs are organized in a Federation at the national level, which plays an important role in the areas of coordination, training, technical assistance and supervision of members. The Federation, established in 1987, benefited from the long-term support of a German Technical Cooperation (GTZ) project that was implemented from 1985 to 1996. The Inter-American Development Bank (IDB) was also an important provider of technical assistance in the period 1994-99, providing 10 long-term soft loans to the most developed Cajas, to reinforce their capital base.

The key institutional factors responsible for the success of the CMACs include: clear limitations to the municipal government; balanced membership to the Board of Directors including main stakeholders of local civil society; promotion of the principles of financial sustainability and

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3 The CMACs were created by Law No. 23039; their operations are now regulated by Supreme Decree No. 157-90.EF. The Banking Law of 1996 (Law No. 26702) established the transformation of CMACs into stock companies that could incorporate private shareholders.

4 Federación Peruana de Cajas Municipales de Ahorro y Crédito (FEPCMAC)

outreach; and an active involvement of donors in the field of technical cooperation and institutional support.

**Financial analysis**

The CMACs have experienced rapid growth in 1996-2000, despite the crisis of 1998-2000. Total assets increased from US $96 million in 1996 to US $263 million by the end of 2000, reflecting the dynamism of their loan portfolio, which grew from US $65 million to US $158 million in the period. CMACs have been able to maintain a quality portfolio; due loans represented 6.08% of the total in 1996 and 4.82% at the end of 2000. In 2000, loan loss reserves were equivalent to 139.6% of past due loans, reflecting the adoption of prudent financial policies.

The CMACs have been able to increase their operations thanks to successful mobilization of deposits, which allowed savings to grow from US $42.4 million in 1996 to US $154.1 million in December, 2000, representing 53.9% and 68.3% of total liabilities, respectively. This favorable development is an exceptional achievement for a financial institution specializing in micro-credits in Latin America, as they tend to depend on credit lines from official sources and/or international donors. It is a sign of the consolidation of CMACs in regional markets as trustworthy and sustainable intermediaries. Significant profitability and decisions to reinvest resources led to an increase in the equity base of CMACs from US $17.4 million in 1996 to US $37.6 million in December 2000.\(^6\)

**Characteristics of the credits to microenterprises by CMACs**

Credit to micro enterprises\(^7\) accounted for 66.6% of all current loans made by CMACs in December 2000; the remainder of the portfolio was allocated to consumer loans (29.2%) and pawn credits (loans covered by a gold pledge, 4.2%). The number and volume of microcredits increased rapidly in 1992-2000; from 4,253 outstanding loans and a portfolio of US $2.7 million in 1992, to 116,349 credits and US $113.9 million in 2000. This expansion can be attributed to several factors: the dynamic demand for credit generated by the rapid growth of the economy in 1993-97; the success of deposit mobilization efforts made by CMACs, and the

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\(^7\) Microenterprises are generally defined in Peru as economic units with less than US $20,000 in fixed assets (excluding the value of the owner’s home) and with four or less workers.
institutional capacity created in those institutions with the support of international technical cooperation.

This period also created conditions for a marked increase in productivity: the number of outstanding credits per analyst grew from 106 in 1992 to 405 in 2000, while the average portfolio per analyst increased from US $67,000 to US $397,000. The result was a reduction in operating costs that allowed CMACs to lower gross financial margins.

Micro enterprises are fairly heterogeneous, especially in urban areas where the bulk of the CMACs portfolio is concentrated. Other NGOs, such as PRISMA, Caritas and FINCA have achieved higher levels of outreach by using different credit methodologies (like village banking and solidarity groups) and smaller average loans. In March 2001 they had 50,508 outstanding borrowers and a portfolio of US $8.7 million, with an average loan of US $173. In contrast to CMACs, these intermediaries largely depend on subsidies to cover costs and have not attained a point of sustainability.

Factors explaining the success of CMACs; main problems and perspectives
A number of key factors explain the recent success of CMACs. First, in the 90s Peru enjoyed rapid growth and macroeconomic stability that was very favorable for financial deepening; financial reform, the liberalization of interest rates and adequate regulation of microfinance were also important. Second, CMACs made a clear effort to base their development on the regional mobilization of deposits, ensuring prudent credit risk management in spite of political pressure from local depositors. Third, the institutional structure of CMACs included clear limitations to the influence of the municipal government and representation of civil society on the Board of Directors, which helped provide continuous financial services to target groups without compromising financial sustainability. Finally, the role of international cooperation was also central to their success. Long-term support from GTZ and IDB with technical assistance, training and institutional capacity building, rather than grants and soft loans, was important to avoid distortions of financial markets.

The main challenges facing the consolidation of CMACs are:

- widening their capital base to diversify operations, introduce new products and gain access to local capital markets.

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○ reducing the management rigidities typical of public enterprises having to abide to cumbersome procedures which generate competitive disadvantages9 in financial markets.

○ creating stable governance structures and reducing the dangers of political pressure that could increase as operations of CMACs become more important.

Privatization of CMACs would contribute to solving these challenges. First, private shareholders help widen the capital base, facilitating the growth and diversification of operations and improving access to local capital markets, thus reinforcing their competitive position. Second, privatization would help establish better governance structures, reinforcing professional management and reducing the risks of corruption. Third, the presence of private investors would stimulate innovations and increase efficiency through know-how and structure of incentives. The consistently high profitability of CMACs will increase interest in the privatization among private investors; the favorable results attained in the experience of privatization in Peru in the last decade will also contribute to increase private sector interest.

The new Law on the Financial System opened the possibility of incorporating private shareholders in CMACs;10 a Special Committee to promote the process was established by the Superintendence of Banks.11 The IDB is supporting a study to recommend a strategy for privatization;12 and the debate has begun in the municipalities about its merits, including an assessment of alternative strategies.13

Participation of private investors in CMACs may face resistance from various stakeholders. Very often, public ownership is defended as the only effective way of maintaining the social mission of these institutions and their regional orientation.14 Directors and managers of CMACs could oppose the process for fear of losing their influential position and employment; workers may also feel that their workplace would be endangered.

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9 Currently, the CMACs must, for example, request authorization from the President to increase salaries; also, they must get the approval of the Ministry of Finance to open a new branch.
10 Cf. Law No. 26702, December 1996, 14th Temporary Provision.
13 The resignation of President Fujimori and two successive presidential elections in 2000 and 2001 have contributed to delaying the privatization of the CMACs, as privatization is a sensitive political issue.
14 Which is very important and appreciated in a country characterized by extreme centralism in the financial system.
The success of the first wave of privatization will be decisive to the future of private ownership.

**CMAC loans to the rural poor**

*The rural credit market in Peru: An overview*

The development of the rural financial markets in Peru faces important obstacles:15

- The rural population is widely dispersed and has low average income levels. Linkages to urban centers are generally weak, due to Peru’s high degree of centralization.

- Partially as a result of the radical agrarian reform of 1969, land distribution is fragmented; many of the small production units have a number of dispersed plots of minuscule size.

- Rural areas have poorly-developed economic infrastructure; there is a notorious deficit in roads, storage facilities and markets, which generates high transaction costs.

- Most farmers use rudimentary technology and have low levels of productivity.

- Markets for land and agricultural products are not dynamic and property rights over agricultural land are not clearly defined.

- Agricultural production is exposed to external shocks: climatic factors (droughts, flooding, etc.) and market changes (price fluctuations in domestic and international markets).

- Public sector interventions often distort incentives through subsidies and programs to refinance or forgive debts, in spite of the ideology of economic liberalism that prevailed in the 1990s.

A recent IDB-sponsored research project explored the characteristics and importance of financial flows to rural areas.16 The project drew a random

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sample of 400 rural households in two areas considered representative of rural Peru.\textsuperscript{17} Table 1 shows that there is no significant difference in access to external finance for poor and non-poor rural families: the former represent 60.8\% of the population and 61.4\% of those with access to external finance. But the poor tend to represent a smaller fraction of those with access to formal credit (40\%) and a bigger share of those with semi-formal (62.1\%) and informal credit (64.5\%). An important factor explaining this finding is failure to meet collateral requirements.

\textbf{TABLE 1: Distribution of rural households by poverty condition and access to formal, semi-formal and informal credit.}

<table>
<thead>
<tr>
<th>Poorest</th>
<th>No. of households</th>
<th>%</th>
<th>Households with some type of external finance</th>
<th>Households with formal credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nº</td>
<td>Nº</td>
</tr>
<tr>
<td>Poor</td>
<td>243</td>
<td>60.8</td>
<td>180.0</td>
<td>61.4</td>
</tr>
<tr>
<td>Non-poor</td>
<td>157</td>
<td>39.3</td>
<td>113.0</td>
<td>38.6</td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
<td>100.0</td>
<td>293.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Households with semi-formal credit</th>
<th>Households with informal credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nº</td>
<td>%</td>
</tr>
<tr>
<td>Poor</td>
<td>95</td>
</tr>
<tr>
<td>Non-poor</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>153</td>
</tr>
</tbody>
</table>


\textsuperscript{17} Cf. Carolina Trivelli, December 2000, \textit{Clientes de las Instituciones de Microfinanciamiento}, IEP, CEIS, pp. 17–40, www.consorcio.org./programa de investigaciones/red de microcredito. for an exploration of access to credit by rural households, using the data of ENNIV, a random sample at the national level.
TABLE 2: Characteristics of formal, semi-formal and informal financial transactions in rural households.

A. For the total sample.

<table>
<thead>
<tr>
<th></th>
<th>FORMAL</th>
<th>SEMI-FORMAL</th>
<th>INFORMAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of transactions</td>
<td>63</td>
<td>197</td>
<td>250</td>
</tr>
<tr>
<td>Average amount in US $</td>
<td>1823.8</td>
<td>1421.5</td>
<td>331.0</td>
</tr>
<tr>
<td>Total amount in US $</td>
<td>114,896.5</td>
<td>280,026.7</td>
<td>82,748.3</td>
</tr>
<tr>
<td>Average term in months</td>
<td>8.6</td>
<td>6.7*</td>
<td>2.9</td>
</tr>
<tr>
<td>Transaction costs/average amount of loan in % without considering the opportunity cost of the borrower’s time</td>
<td>2.54</td>
<td>0.98</td>
<td>0.63</td>
</tr>
<tr>
<td>Use of guarantees [No. of cases]</td>
<td>56</td>
<td>93</td>
<td>12</td>
</tr>
<tr>
<td>Average degree of satisfaction of the borrowers [1 = low satisfaction; 5 = high satisfaction]</td>
<td>3.8</td>
<td>3.7</td>
<td>4.0</td>
</tr>
</tbody>
</table>

* Does not include loans from Banco de Materiales.

B. Only for poor rural households

<table>
<thead>
<tr>
<th></th>
<th>FORMAL</th>
<th>SEMI-FORMAL</th>
<th>INFORMAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of transactions</td>
<td>24</td>
<td>111</td>
<td>167</td>
</tr>
<tr>
<td>Average amount in US $</td>
<td>2000.9</td>
<td>1740.0</td>
<td>342.2</td>
</tr>
<tr>
<td>Total amount in US $</td>
<td>46,020.2</td>
<td>165,296.4</td>
<td>40,384.1</td>
</tr>
<tr>
<td>Average term in months</td>
<td>8.9</td>
<td>8.7(*)</td>
<td>1.2</td>
</tr>
<tr>
<td>Transaction costs/average amount of loan in % without considering the opportunity cost of the borrower’s time</td>
<td>2.16</td>
<td>1.11</td>
<td>0.44</td>
</tr>
<tr>
<td>Use of guarantees [No. of cases]</td>
<td>22</td>
<td>64</td>
<td>30</td>
</tr>
<tr>
<td>Average degree of satisfaction of the borrowers [1 = low satisfaction; 5 = high satisfaction]</td>
<td>4.0</td>
<td>3.6</td>
<td>4.0</td>
</tr>
</tbody>
</table>

* Without considering the loans of the Banco de Materiales.

The importance of the financial sector in rural areas is clear from the fact that 73.2% of all rural households surveyed had received some form of external finance in the last year. These funds are only partly disbursed in cash; many semi-formal and informal loans are extended in kind to finance inputs (seeds, fertilizers, etc.) or consumption goods.

For poor rural households the informal sector is the most important source of finance, with 55.3% of all transactions recorded vs. 36.7% for semi-formal and 7.95% for formal sources (Table 2). Informal loans are, in general, small and short term; they generate low transaction costs to the borrower, and do not require guarantees. However, the total amount of money lent to poor rural households reveals a different picture: semi-formal sources are dominant (65.7% of the portfolio), followed by formal sources (18.3%) and informal credit (16.04%). Semi-formal transactions involve larger average sums, longer terms, and higher transactions costs, with more regular use of guarantees or collaterals (in 57.7% of cases vs. 18.0% for informal loans). Financial transactions with formal institutions are fewer in number, but they present higher average amounts, longer terms and higher transaction costs; 91.7% of such loans have guarantee requirements.

In practice, there are close relationships between semi-formal and formal financial sources; for instance, an agro-industrial firm or a supplier of inputs that has outstanding lines of credit with commercial banks and grants financial facilities to farmers. Such relationships are also common between formal and informal sources; for example, vendors in wholesale markets who obtain facilities from formal credit institutions and grant loans to rural households in order to secure a steady supply of produce. Any restriction to formal loans tends to have a negative influence on the financial flows of semi-formal and informal institutions. Therefore the importance of formal lenders goes beyond direct loan disbursement to clients.

Private Rural Savings and Loans Institutions (CRACs) account for 37.5% of formal financial transactions among poor rural households interviewed;

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19 For example in Peru’s northern valleys, which produce cotton (Huaral) and rice (Trujillo, Lambayeque).

20 For an interesting review of the formal – informal links in practice, see Floro, Maria Sagrario (1997), “Vertical Links Between Formal and Informal Financial Institutions”, Review of Development Economics 1 (1); pp 34 - 56. They analyze the case of rice in the Philippines, but the links also are applicable to the valleys on the north coast of Peru.
CMACs represent 25.0%, Small Business and Microenterprise Development Institutions (EDPYMES) 20.8% and commercial banks 16.7%\(^{21}\) (Table 3). The distribution of total loan portfolio shows that the CRACs account for 71.4% of total money lent to the most consolidated small farmers (average value of loans is 90.3% higher than formal loans). CMACs, ranked third, with 9.5% of the portfolio but much smaller average value of loans (about one third the mean value of formal loans).\(^{22}\)

**TABLE 3: Main sources of formal finance for rural households**

A. For the total sample

<table>
<thead>
<tr>
<th></th>
<th>No. of transactions</th>
<th>%</th>
<th>Total portfolio in US $</th>
<th>%</th>
<th>Average loan in US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>11</td>
<td>17.5</td>
<td>16,491.2</td>
<td>14.4</td>
<td>1,499.2</td>
</tr>
<tr>
<td>CRACs</td>
<td>21</td>
<td>33.3</td>
<td>65,352</td>
<td>56.9</td>
<td>3,112</td>
</tr>
<tr>
<td>CMACs</td>
<td>19</td>
<td>30.2</td>
<td>21,948</td>
<td>19.1</td>
<td>1,155.2</td>
</tr>
<tr>
<td>EDPYMES</td>
<td>12</td>
<td>19.0</td>
<td>11,104.8</td>
<td>9.7</td>
<td>925.4</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>100.0</td>
<td>114,896</td>
<td>100.0</td>
<td>1,823.7</td>
</tr>
</tbody>
</table>

B. For poor rural households.

<table>
<thead>
<tr>
<th></th>
<th>No. of transactions</th>
<th>%</th>
<th>Total portfolio in US $</th>
<th>%</th>
<th>Average loan in US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>4</td>
<td>16.7</td>
<td>5,000.0</td>
<td>10.6</td>
<td>1,250.0</td>
</tr>
<tr>
<td>CRACs</td>
<td>9</td>
<td>37.5</td>
<td>33,661.8</td>
<td>71.4</td>
<td>3,740.2</td>
</tr>
<tr>
<td>CMACs</td>
<td>6</td>
<td>25.0</td>
<td>4,479.8</td>
<td>9.5</td>
<td>746.6</td>
</tr>
<tr>
<td>EDPYMES</td>
<td>5</td>
<td>20.8</td>
<td>4,034.7</td>
<td>8.6</td>
<td>806.9</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>100.0</td>
<td>47,176.3</td>
<td>100.0</td>
<td>1,965.7</td>
</tr>
</tbody>
</table>

Source: Javier Alvarado, Felipe Portocarrero M., Carolina Trivelli, Francisco Galarza and Hildegardi Venero, Consorcio CEPES—IEP, Nov 2000 *El Financiamiento Informal en el Perú*, Informe Final, Vol. 1 and cross-tabulations specially prepared for this paper.


\(^{22}\) The central role of the CMACs at the national level is confirmed by the ENNIV 2000 survey. These institutions provide credit to 19.0% of rural households with access to formal loans, cf. Carolina Trivelli, op. cit. pp. 18.
The main sources of formal loans to poor rural households are specialized non-banking institutions: CRACs, CMACs and the EDPYMES. Bank loans are only 10.6% of total loans to rural poor households but 14.4% of total loans in the sample. CRACs have not yet reached a point of financial viability; they cater to a better-off clientele and have a poor quality portfolio. The experience of CMACs may help build a successful system to extend the coverage of financial institutions to the rural poor in the future.

Evolution of the CMAC portfolio in the agricultural sector.

Financial flows to the agricultural sector increased rapidly in the 1990s (from US $261.6 million in loans from formal sources in 1996 to US $425.0 million in June 2000), but the rate of growth has declined since 1997 due to cautious credit policies adopted by all formal intermediaries in response to the shock created by El Niño and the economic crisis of 1998-2000. Profitability in the agricultural sector declined and eroded the ability of borrowers to repay loans.

Commercial banks held 88.3% of the total portfolio in June 2000. Funds were almost exclusively allocated to medium and large modern farms. CRACs and CMACs accounted for 7.8% and 4.1% of money lent to consolidated small producers and small and very small farms, respectively. For commercial banks, loans to agriculture are of marginal importance, representing 3.2% of their total portfolio; yet delinquency rates of agricultural clients are considerably higher than the average for all sectors (20.6% vs. 7.22% in May, 2000) reflecting the higher risk profile of the sector.

Loans to agriculture from CMACs increased from 8.5% to 12.3% of their total portfolio in the same period, but their level of exposure to the risk characteristic of this sector is relatively low. Given the large demand for rural microcredit in Peru, CMACs could increase their portfolio in this sector substantially without affecting their diversification policies.

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24 After growing on average 11.4% per year in 1993-97, agricultural production declined 1.9% in 1998 as a consequence of El Niño. In 1999 it recovered sharply by 14.2% when that climatic alteration disappeared.
25 In 1998 agriculture generated 12.6% of Peru’s GDP.
27 Expansion is based on two additional conditions: (i) effective control of agricultural credit risk and (ii) an efficient strategy to ensure profitability.
Credit technology of CMACs

The CMACs of Piura and Sullana on the north coast of Peru have the most successful rural micro credit programs. This section summarizes the main characteristics of the credit technology employed by these institutions.

First, both institutions have established a series of risk diversification and management policies: (i) agricultural loans do not exceed 25% of the total portfolio and are distributed in different regions; (ii) crops financed are diversified, including rice, bananas, mango and lemon; cotton is considered too risky, and (iii) portfolio analysis is performed on a monthly basis, indicating the number of clients financed, the cultivated area covered, type of crops, the amount of credit granted, the use of loans and performance of past credit. Each CMAC is in a position to monitor loans closely and is able to introduce early corrective measures if needed.

Preference is given to candidates with the best land and livestock and good reputations as producers and borrowers. These evaluation criteria reduce credit risks but exclude very poor rural households. Loans are mainly granted to meet working capital needs with terms of up to one year. CMACs cover a maximum of 80-90% of total production costs and always insist on the importance of the farmer’s contribution. Specialized analysts, usually agronomists, monitor up to 250 clients in their area of operation, which can cover up to 800 hectares. They visit each individual client on the plot and at home in order to evaluate payment capacity and to determine the feasibility of repayment, which is usually made in one payment at the end of the harvest. The evaluation takes three to four days and loans are disbursed by installments according to the monitored progress of agricultural activities. A mortgage on the farm is required as collateral.

Analysts visit their clients three times on average in a normal 6-month production cycle and evaluate the evolution of the crops and approve pending disbursements. Occasionally they provide technical assistance, but in general they refer farmers to agronomists who bill farmers directly for their services. Analysts are also in charge of credit recovery and follow-up, especially for clients in arrears. If a borrower has suffered important

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28 Many farmers in the region now have formal property rights. It costs about US $87 and takes a few days to register a floating mortgage in favor of a CMAC. This can be used as collateral for other loans. Transactions costs are small and CMACs have negotiated favorable conditions for a large number of clients with corresponding high bargaining power with the public register and notaries.
losses due to natural shocks—as in the case of El Niño in 1997-98—the analyst evaluates damages and may propose refinancing for up to 3 years to give good clients the opportunity to recover.29 Credit analysts have an additional incentive to maintain an adequate portfolio quality: remunerations include a component associated with the rate of loan recovery and size of their total portfolio. These incentives promote careful selection of clients and better monitoring, both essential to guarantee a high level of loan recovery.

In the decentralized organizational structure of CMACs, agricultural credits are managed by each branch and its own credit committee. The branch manager can approve loans up to US $3,000 while management can authorize operations for up to US $12,000. The Board of Directors of the institution at the central level must approve larger credits.

Small farmers appreciate the possibility of establishing a long-term relationship with CMACs because it improves their ability to benefit from business opportunities and enables them to plan the development of productive activities. By December 1997, 70% of CMAC clients in Sullana were former clients (80% in Piura). CMACs are achieving one of their main goals: establishing long-term credit relations with clients.30 From the client’s point of view, CMAC credit is cheaper and more flexible than other sources of informal loans from merchants and moneylenders.

The perceptions of clients

A recent research project31 described the attitudes of rural households in two regions where CMACs operate—La Libertad and Junin. These institutions tend to grant smaller, short-term loans backed by collateral requirements; there is no need to present a project to approve loans, since the main purpose is to provide short-term working capital. Client satisfaction with CMAC operations is very high (Table 4).

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29 The approval of refinancing facilities is subject to a series of strict guidelines and authorization levels in the CMAC.
TABLE 4: Perception of rural households of loans from different formal intermediaries.

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>EDPYMES—cooperatives</th>
<th>CRACs</th>
<th>CMACs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average amount of loan in US $</td>
<td>1,499</td>
<td>925</td>
<td>3,112</td>
<td>1,155</td>
<td>1,824</td>
</tr>
<tr>
<td>Average term in months</td>
<td>10.8</td>
<td>5.1</td>
<td>10.2</td>
<td>7.8</td>
<td>8.6</td>
</tr>
<tr>
<td>Collateral required (% of cases)</td>
<td>72.7</td>
<td>91.7</td>
<td>100.0</td>
<td>89.5</td>
<td>90.5</td>
</tr>
<tr>
<td>Project required (% of cases)</td>
<td>9.1</td>
<td>.</td>
<td>4.8</td>
<td>5.3</td>
<td>4.8</td>
</tr>
<tr>
<td>Average years of experience with the institution</td>
<td>2.7</td>
<td>2.8</td>
<td>2.8</td>
<td>2.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Frequency of arrears in %</td>
<td>54.6</td>
<td>41.7</td>
<td>38.1</td>
<td>5.3</td>
<td>31.8</td>
</tr>
<tr>
<td>No. of days required to approve loan</td>
<td>47.5</td>
<td>13.6</td>
<td>48.7</td>
<td>11.8</td>
<td>30.7</td>
</tr>
<tr>
<td>Average degree of client satisfaction [5 = highest; 1 = lowest]</td>
<td>3.3</td>
<td>4.2</td>
<td>3.6</td>
<td>4.2</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: Javier Alvarado, Felipe Portocarrero M., Carolina Trivelli, Francisco Galarza and Hildegardi Venero, Consorcio CEPES—IEP, Nov. 2000, El Financiamiento Informal en el Perú, Informe Final, Vol. 1, p. 120 and cross-tabulations specially prepared for this paper.

The relationship between lenders and borrowers tends to be stable. The average client has 2.5 years’ experience working with an institution and there is no significant difference among intermediaries. Stable relations are important as they allow lenders to accumulate costly information about the borrower’s capacity and willingness to pay. It also helps to shorten the approval period and to refinance loans when clients are affected by external shocks. If the borrower decides to change to another institution he will lose all these advantages since this kind of information is not easily transferable.

There are large differences among institutions in two important aspects. First, CMAC loans in arrears represent only 5.3% of borrowers vs. 54.6% for banks and 38.1% for CRACs. This very significant difference is explained by the better evaluation and monitoring procedures of CMACs and their swift reaction to delinquencies. Banks and CRACs are notorious for their infrequent loan monitoring and limited efforts to recover
credits. Second, CMACs require much shorter periods to approve a loan (on average 11.8 days), while banks need 47.5 days and CRACs 48.7. This advantage is much appreciated by agricultural borrowers who have a high opportunity cost of time.

**Concluding remarks**

In the 1990s there was a dynamic increase of credit to poor rural households (mainly through the expansion of CMACs) that helped expand the frontier of the formal financial system. Through the implementation of adequate credit technology these intermediaries were able to maintain a good-quality portfolio and grant financing with low transaction costs to poor rural borrowers. They generated stable relationships that could form the basis of a long-term partnership with beneficial effects to both sides. This situation is reflected in the high degree of satisfaction showed by clients.

At the end of the 1990s conditions were apparently set for a rapid penetration of the CMACs in rural micro credit markets. This promising perspective has been questioned by recent political interference that increased the credit risk of the sector, creating a less favorable context for the rapid expansion of CMAC portfolios.

Some factors that could help address the obstacles faced are: i) the creation of an enabling environment through the promotion of macroeconomic stability; ii) avoidance of political interference in rural credit markets; iii) an increase in agriculture’s profitability thorough better infrastructure (roads, storage facilities, irrigation, technical advise, etc.) and risk-mitigating mechanisms (insurance programs against external shocks); iv) the establishment of a stable legal framework and an efficient judicial system; 

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would enable them to reach poor clients in locations outside the richest agricultural areas.

Finally, a brief summary of the main lessons learned from the experience of CMACs that could be of relevance to other countries:

- The importance of providing an enabling environment for the development of microfinance, through the support of macroeconomic stability and financial reform. Also relevant is avoiding political interventions in rural financial markets and enforcing the role of the government to provide economic infrastructure and risk mitigation programs to reduce the impact of external shocks on poor rural households. Stability in the rules of the game is of crucial importance for the development of rural financial markets.

- Adequate credit technology for rural microcredit is central to maintain good portfolio quality and appropriate incentives for borrowers and management of the financial institution.

- The importance of the institutional setting of intermediaries to provide sound incentives to attain sustainability and outreach. Institutional reforms, such as privatization, may be a way to resolve internal and external challenges.

- The tension between mobilizing the deposits of urban savers and the goal of increasing outreach to poor rural households. Financial institutions depend on the confidence of savers and there are powerful incentives to adopt prudent credit policies to ensure a good portfolio quality. But those policies could restrict outreach to poor rural households that are perceived as riskier and more costly.
CHAPTER 13

The Case of Génesis Empresarial in Guatemala

By Edgar R. Búcaro*

Introduction

As in most Latin American countries, the most critical problems in Guatemala include inadequate infrastructure and lack of basic services and assistance available to the low-income population—including microenterprises. Informal estimates indicate that less than 30 percent of the rural population and about 50 percent in urban regions have access to electric power and drinking water. The lack of drinking water, sewerage or electric power results in a higher incidence of diseases among low-income populations, as well as many other adverse effects.

In this chapter we present the experience of Génesis Empresarial, a micro credit organization that serves the rural communities of Guatemala, in the context of informal micro credit practices in the country.

The Informal Sector in Guatemala

The informal sector in Guatemala is made up of a large number of small economic units in urban and rural areas operated by owners and their families; micro enterprises only occasionally employ wageworkers. Production procedures, sales and services are rudimentary and labor-intensive. Administrative and financial structures are almost non-existent. These units require little investment, absorb a high percentage of local raw materials and have very limited access to credit lines, especially bank credit. They are usually inserted in highly competitive markets characterized by low-income levels and high instability, which increases risk and generates high operating costs. These economic units are not legally registered and their small transactions leave very little resources for savings and reinvestment. Nevertheless, the informal sector represents an important part of the domestic market, serving the needs of large segments of the population who have no access to formal markets.

The informal sector in Guatemala plays an important role in the creation of employment. There are approximately 100,000 new workers every year in the labor force but only 24,000 find employment in the for-

* At the time of writing, Dr. Edgar Búcaro was a specialist in informal credit markets in Guatemala.
mal sector. Recent average rates of economic growth of over four percent a year have not been enough to absorb a growing labor pool or to improve living conditions of the poor. The informal sector continues to be the most accessible and immediate way to generate employment and income for large segments of the population.

The informal sector in Guatemala includes a large number of economic units classified in almost 30 different lines of production, services and commercial activities: mechanics, tailor shops, carpenters, shoemakers, clothing makers, all kinds of craftsmen, bakeries, tapestry shops, beauty shops, dressmakers, printers, taxicabs, traveling salesmen, market salesmen or small market shop owners, and others. According to some studies, around 58 percent of these businesses are located on the owner’s property with fairly rudimentary health and space conditions. There are about 1,022,000 businesses in Guatemala employing 1,639,000 workers (44 percent of the economically active population); 997,000 were micro enterprises employing 1,469,000 workers. They represent roughly 39 percent of Guatemala’s gross national product.

Continuous growth of this sector, around 10 percent annually in the last decade, has taken place without any formal institutional, technical, administrative or financial support. One of the main causes of the low levels of productivity characteristic of this kind of enterprises is lack of access to financial markets; their expansion relies on their own limited savings or various forms of usurer financing.

Better mechanisms to finance the informal sector are key to increase productivity and improve the working and living conditions of the poor. However, major barriers limit their expansion, including lack of guarantees, absence of administrative and accounting systems, and small scale of operations.

**Microfinance In Guatemala**

A recent survey of several rural micro enterprises reveals that two thirds of them have no records of transactions with commercial banks, cooperatives or private development organizations (PDOs). Of those that had access to financial funds, 51 percent came from private banks; 27 percent from savings and credit cooperatives; 12 percent from State Banks; and 9 percent was provided by PDOs. Individual money lenders accounted for 1 percent, but their share is larger in rural markets and small urban centers; interest rates may be as high as 20 percent a day. PDOs are the second most important source of finance.
The Formal Finance System in Microfinance operations

The formal financial system in Guatemala has not played any role in meeting the financial needs of micro enterprises; only recently four banks initiated microfinance programs. Only three percent of the total amount of loans from private banks and financial associations goes to 90 percent of the total number of borrowers a year; only 5 percent of total credits are loans equal to or less than US $2,500; only 8 percent of this went to finance micro enterprises.

State Banks have started developing financial instruments to reach micro enterprises. In 1997, 32 percent of total loans granted (equivalent to US $18 million) were loans for US $12,500 on average; around 21 percent went to finance consumption and construction; and 74 percent was allocated to micro enterprises in the agricultural sector. Another 5 percent went to micro enterprises in manufacturing, commerce and services. Some studies estimate that micro- and small enterprises require an annual flow of approximately US $350 million to support the purchase of working capital and investment in fixed assets.

Most micro enterprises do not meet legal requirements for collateral. In 1997, based on Law No. 57-97, Banco de Desarrollo Rural (BANRURAL) began to accept non-conventional warranties such as family assets, machinery, tools, and similar appliances to facilitate access to small credit lines. BANRURAL also participates in the market known as "banca de segundo piso" (second floor banking), making loans to private development organizations (PDOs) and cooperatives, which in turn grant credits to micro enterprises.

Some factors explaining the low involvement of private banks with micro- and small enterprises are: lack of adequate personal assets and warranties; the length of application procedures and the cultural shock of small rural entrepreneurs when they visit commercial banks: procedures, customer services, and even the physical look of buildings are designed to attend urban clients with higher socioeconomic status in the formal sector.

The Informal Financial System in Microfinance Markets

The law authorizes several financial institutions to serve as financial intermediaries without supervision from Superintendencia de Bancos, the high banking authority, including: financial companies, credit associations, credit and debit organizations, savings and credit cooperatives, private development organizations (PDOs), and individuals money lenders.

Almost every town has at least one or two moneylenders who lend small amounts of money at interest rates of 10-15 percent a month. The
same credit in smaller local (cantonal) markets could carry an interest rate of 10-20 percent a day. By contrast, formal financial intermediaries would grant loans equivalent to 50 percent of the value of property used as collateral with an interest rate of 3-5 percent a month and terms of 6-12 months. But micro entrepreneurs cannot access this kind of credit lines for reasons explained above.

There are 1,322 cooperatives legally authorized to operate around the country with more than 286,700 associates. Almost 50 percent of cooperatives operate in agricultural areas and almost 63 percent of their associates are organized in savings and credit cooperatives. Their main source of funds is from associates themselves, but they also operate with loans from the banking system and international agencies. Cooperatives make intermediary transactions exclusively with their associates.

In 2000, cooperatives granted loans worth US $25 million, with an average value of US $1,500, mostly for construction, commercial activities, agricultural production and personal consumption. Credit granted to support industrial activities, services and micro enterprise development increased by US $7 million in the same year. Credits from cooperatives require fiduciary or mortgage guarantees but some also have an automatic mechanism of credit approval when financed from savings and contributions of the associates themselves. Interest rates are the same as those prevailing in the formal financial market and in that sense they compete with the banking system.

It has been estimated that there are 292 PDOs operating in the country, most of them implementing human rights programs, although 28 of those associations and foundations also manage financial programs to micro- and small enterprises. Most PDOs operating in micro financial markets have very limited coverage in one or two departments. Génesis Empresarial is the only private institution that operates in 16 departments, followed by SHARE, which operates in 8, and FUNDAP in 6. Almost all PDOs were created recently (8 to 13 years ago) with exception of two that have operated for more than 25 years. All are financed by resources from abroad, including: Vision Mundial, ACD Austria, Sweden Cooperation, Spain Cooperation, German Cooperation, Inter-American Foundation, BCIE, IDB, and AID. Only Génesis Empresarial and FUNDAP are financed by private banks.

In order to coordinate activities, 17 PDOs created the Red de Instituciones de Microfinanzas de Guatemala (REDIMIF), serving almost 120,000 micro- and small enterprises with an active portfolio of US $20 million in 2000. Each year they grant loans for about US $25 million at the national level and manage different credit lines: solidarity groups,
individual loans, community loans, and housing. Most loans from PDOs are used to support micro enterprises in rural areas: 90-97 percent of credits finance agricultural activities.

Over 75 percent of loans granted by PDOs require fiduciary guarantees; about 25 percent have mortgage guarantees. Fiduciary guarantees can be individual or collective, sometimes including simple documents of acknowledgment of debt or exhibition of land title. In general, PDO interest rates are higher than those charged by cooperatives and banks, but include pre-credit training, feasibility studies, monitoring and loan collection. In a recent agreement, PDOs decided not to subsidize borrowers with low interest rates to avoid markets distortions and make operations sustainable.

Several banks, cooperatives and PDOs, with support from international organizations, have promoted the creation of a network called Red de Instituciones de Microfinanzas and a risk management mechanism (Central de Riesgo) with participation from 2 banks, 4 PDOs and the Federation of Savings and Credit Cooperatives (FENACOAC). These new forms of organization will facilitate the expansion of micro-credit with the creation of a common database that will start operations with 200,000 clients and a portfolio worth about US $40 million.

There are also steps to institutionalize the operation of micro-credit in Guatemala. A group of advisors (Consejo Nacional Asesor) is being created to work directly with the Vice-ministry of Micro, Small and Medium-size Enterprises within the Ministry of the Economy to promote the development of the micro- and small sector in rural and urban areas. The council includes representatives from commercial banks, cooperatives, PDOs, business chambers, research centers, universities, international organizations and government.

**Government Policy**

About 90 percent of all establishments in the country are classified as micro- and small enterprises. It has been estimated that as many as 98 percent of micro enterprises operate without legal registration.

Government regulations can be fairly complex for micro enterprises and involve high transaction costs. In Guatemala there is no special regulation or normative laws specially designed to reflect the conditions of micro- and small enterprises. Banking regulations have been revised recently to include operations of non-regulated financial intermediaries, like PDOs, but the adequacy of this regulatory framework is doubtful since there was no participation from representatives of this sector. New laws have also been
passed to tax financial products offered by PDOs (10 percent of total transactions, with proposals of 20 percent plus another 3 percent when loans involve mortgage collaterals). Banks are not exempt from these payments.

The Ministry of the Economy, through the Vice-ministry for Micro, Small and Medium-size Enterprises is making an effort to generate new initiatives to promote effective development of these firms.

**Génesis Empresarial: Projects for Microfinance and Rural Development**

**Institutional objectives**

Fundación Tecnológica (FUNTEC) created Génesis Empresarial in 1988 with support from Action International and the U.S. Agency for International Development (USAID). In June 1997, Génesis Empresarial was recognized as a legally independent foundation with the status of a non-profit organization.

The overarching goal of Fundación Génesis Empresarial is to improve the living conditions of low-income groups in Guatemala through: the promotion and development of micro and small enterprises and through direct support to low-income communities in rural areas. Support to micro and small enterprises is done through training programs, financial services and technical assistance. There is also a facility specifically designed to support the expansion of basic infrastructure in rural communities: the Community Infrastructure Lending Program (CILP).

Génesis Empresarial has received financial and technical assistance from numerous institutions, including: Action International, USAID, Plan International, Banco Centroamericano de Integración Económica (BCIE), Inter-American Development Bank (IDB), Fideicomiso de Desarrollo Local (FDLG), Sweden Cooperation, and local commercial banks (Banco de Exportación, Banco Industrial, Banco Granai & Townson, Banco de Occidente, Lloyds TSB PLC, Bancasol, Banco del Agro, Banco del Café and Banco de Occidente.

Today, Fundación Génesis Empresarial has 40 branch offices in 16 departments of Guatemala, which provide services to virtually the entire country.

**Génesis’ Development Process**

In its 13 years of operation Génesis Empresarial has gone through various phases:

Génesis Empresarial was created in May 1998 to promote the growth and development of micro enterprises in Guatemala, but remained highly dependent from foreign resources. In 1990 Génesis obtained fresh
resources from private banks and other financial institutions to expand operations and guarantee sustainability. At present, Génesis Empresarial has stable operations with 15 commercial banks, regional banks, and international institutions.

In June 1997, Génesis Empresarial was recognized as legally independent and autonomous under the name of Fundación Génesis Empresarial. In this period, Génesis expanded operations with new credit programs to reach small enterprises and introduce projects to support community infrastructure development in rural areas.

During 1998, Génesis created new credit programs: village banks and housing, incorporating 7,399 new clients to whom 10,538 loans were granted for a total of US $15 million. By the end of that year, its active portfolio had increased to 22,413 clients and US $10.5 million. Génesis was present in 16 of the country’s 22 departments, attending 483 urban and rural communities and providing credit support to entrepreneurs and communities that count among the lowest-income groups of the country.

In 1999-2000, its volume of operations decreased substantially due to the critical economic and financial situation in the country. Nevertheless, Génesis started a process to get authorization to operate as a bank, while making efforts to reverse its own performance indicators and recover its position.

In January 2001, Génesis Empresarial adopted a new working plan that contemplates an important expansion of microfinances: increasing the number of clients, introducing new financial products and services, increasing the active portfolio and obtaining higher profits from financial operations to diversify institutional development programs.

**Whole Services Package**

The mission of Génesis Empresarial is to offer its clients an integrated package of services that includes financial assistance, training, management assistance and advice on community organization. The objective of such integrated assistance is to accelerate the growth of micro businesses and increase their productivity through better training and management techniques to increase income levels, improve lifestyles and support job creation.

Loans are typically granted in small denominations but borrowers may graduate to higher credit lines as soon as the previous loan has been paid in full. Credits may be Individual Loans, Solidarity Group Loans and Village Banking, each covering different demands for credit and levels of responsibility. They can be granted to finance working capital and for the
purchase and repair of machinery and equipment; at the community level they are approved to introduce (or extend coverage of) electric power, drinking water and similar infrastructure needs. All credits are closely supervised to make sure beneficiaries are using good manufacturing practices and service provision.

Génesis offers training and assistance to clients to improve administrative procedures and make efficient use of their human, financial and infrastructure resources. Support services to communities include strategic planning and community organization; creation, functioning and legalization of development committees; administration, coordination and self-management of community projects.

Credit Programs

In order to respond to the needs of clients, Génesis has developed the following programs:

- **Promotion of Micro-enterprises**: Micro firms need at least one year of operations to have access to this credit line. Loans are accompanied by training courses and management assistance and may be granted individually or to Solidarity Groups. Funds may be used as working capital and/or for the purchase of assets. Guarantees may be fiduciary, joint, or through a mortgage. Loans range from US $150 to US $3,500, with weekly, semi-monthly or monthly payments.

- **Support to Small Business**: This facility is used as a way to continue support to those entrepreneurs that have graduated from the Micro-enterprise Promotion Program but cannot access the regulated financial sector yet. The objective of this program is to strengthen small business with fresh resources and management assistance to improve their administrative capacity and productivity. Credits are for individuals only and can be used for the purchase of working capital and assets. Guarantees accepted may be fiduciary, mortgage, or a simple pledge for an amount that can range from US $3,500 to US $25,000, reimbursed in monthly payments.

- **Village Banking Program**: A credit line used to increase the participation of women in productive activities, especially in rural areas. This is usually to set up new micro-businesses to raise animals, small agricultural production and handicrafts. Loans may be used to buy working capital and after three cycles, it is possible to grant loans to purchase assets. Guarantees are always in the form of Solidarity Groups for
amounts between US $100 and US $500. Repayment schedules usually involve monthly payments but there is also an option to repay the total amount at the end of each cycle (8 or 9 months).

**Infrastructure and services for rural communities.**

- **Electricity:** This facility provides financing, advise, community organization and technical assistance to communities through two different facilities: the National Net Grid Program and the Renewable Energy Sources program for the installation of solar panels. Loans are approved for the purchase of electric equipment, accessories, supplies, and labor. Loans must be guaranteed by the community for amounts that range from US $400 to US $1,000 to each family, with monthly payments.

- **Drinking Water:** Financing for the introduction of drinking water, well perforation, water tanks, distribution networks or home connections. It also provides training in community organization and technical assistance. Loans may be used to buy water equipment, accessories, inputs or hire waged labor. The community guarantees loans for amounts that range from US $400 to US $1,000 per family, with monthly payments.

- **Other Services:** This program provides financing, training in community organization and technical assistance for the introduction of community infrastructure and related services (sanitation, building of community centers, schools, roads, etc). Loan conditions are similar to those for electricity and water.

- **Housing:** provides complete financing for the enlargement, improvement or construction of rural housing. Loans can be used to purchase construction material, accessories, electric connection, etc. Guarantees must be fiduciary or mortgage for amounts from US $300 to US $2,500, with monthly payments.

**Main results**

On top of its own capital, in the year 2000 Génesis Empresarial was able to mobilize additional resources from the private banking system in Guatemala, the Central American Bank of Economic Integration, the Inter-American Development Bank, USAID, the Sweden Cooperation Plan International, and private enterprises. The following tables present a summary of the financial status of Génesis Empresarial to the year 2001.
### TABLE 1: Fundación Génesis Empresarial Main Operation And Financial Results April 2001

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td># of Clients Incorporated</td>
<td>8,242</td>
<td>23,205</td>
<td>23,022</td>
<td>5,710</td>
<td>1,746</td>
<td>61,925</td>
</tr>
<tr>
<td>Active Clients</td>
<td>7,010</td>
<td>14,063</td>
<td>24,896</td>
<td>25,217</td>
<td>26,257</td>
<td>26,257</td>
</tr>
<tr>
<td>Loans</td>
<td>14,313</td>
<td>45,305</td>
<td>31,084</td>
<td>10,189</td>
<td>3,147</td>
<td>104,038</td>
</tr>
<tr>
<td>Total Amount of Loans</td>
<td>10,550</td>
<td>60,659</td>
<td>50,793</td>
<td>16,248</td>
<td>5,372</td>
<td>143,622</td>
</tr>
<tr>
<td>Active Portfolio (US$ '000)</td>
<td>2,088</td>
<td>24,397</td>
<td>33,767</td>
<td>11,133</td>
<td>10,861</td>
<td>10,861</td>
</tr>
<tr>
<td>Delinquency Rate %</td>
<td>4.18</td>
<td>4.35</td>
<td>8.83</td>
<td>10.58</td>
<td>8.92</td>
<td>8.92</td>
</tr>
<tr>
<td>Average Loans</td>
<td>1,403</td>
<td>3,027</td>
<td>3,060</td>
<td>3,397</td>
<td>3,225</td>
<td>3,225</td>
</tr>
</tbody>
</table>

### TABLE 2: Fundación Génesis Empresarial Total Active Portfolio April 2001 (US$ ‘000)

| PROGRAM        | CLIENTS | % WOMEN | PORTFOLIO | % PARTICIP.
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Microenterprise</td>
<td>12,050</td>
<td>44</td>
<td>5,001</td>
<td>46</td>
</tr>
<tr>
<td>Small Business</td>
<td>496</td>
<td>26</td>
<td>1,378</td>
<td>13</td>
</tr>
<tr>
<td>Village Banks</td>
<td>7,995</td>
<td>100</td>
<td>2,096</td>
<td>19</td>
</tr>
<tr>
<td>Communities</td>
<td>4,728</td>
<td>26</td>
<td>2,159</td>
<td>20</td>
</tr>
<tr>
<td>Household</td>
<td>988</td>
<td>23</td>
<td>227</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>26,257</td>
<td>56</td>
<td>10,861</td>
<td>100</td>
</tr>
</tbody>
</table>

### TABLE 3: Fundación Génesis Empresarial Urban-rural Active Portfolio, Gender April 2001

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Women</th>
<th>Men</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>No.</td>
<td>No.</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td>Urban</td>
<td>2,872</td>
<td>2,195</td>
<td>956,219</td>
</tr>
<tr>
<td>Rural</td>
<td>12,010</td>
<td>9,180</td>
<td>4,691,366</td>
</tr>
<tr>
<td>Total</td>
<td>14,882</td>
<td>11,375</td>
<td>5,647,585</td>
</tr>
<tr>
<td>Average Loan</td>
<td>350.30</td>
<td>496.49</td>
<td>413.63</td>
</tr>
</tbody>
</table>
Community Infrastructure Lending Program (CILP)

In order to illustrate the methodology used by Génesis Empresarial to support rural development through microfinance projects, this section presents the management modalities, main results and impact of a lending facility created to support the expansion of basic infrastructure. Assessment of investment opportunities for infrastructure development is based on the experience Génesis Empresarial has in geographical areas where there are programs for micro and small enterprises. Latent demand for our programs is identified as a condition where there is a lack of basic services and infrastructure; families, or the community as a whole, have no access to formal financial sources; families have low income but are economically active, have payment capacity and want to contract credits.

Génesis Empresarial provides comprehensive support to communities and is not restricted to a credit line. It offers projects for capacity building in key areas such as strategic planning, project implementation, community organization, and legalization of development committees. Development committees take full responsibility for the implementation of their own projects; the objective is to make self-financed community projects sustainable.

Before approving a project, Génesis Empresarial conducts technical feasibility studies but also makes sure that the project has support from the majority of families within the community and the local authorities. The community is ready to finance the project from its own funds and accepts responsibility for repayment of additional resources—funds from Génesis are complementary to community resources, and those of regional and private banks. All are granted at market interest rates.

All projects at the community level promote the creation of inter-institutional coordination, to make sure all stakeholders are involved and contribute in their area of expertise: community committees, central government, municipalities, development councils, private sector, specialized enterprises (such as electric company in energy projects), professional project designers, construction companies, national and international organizations that provide technical and financial support, and Génesis Empresarial.

Identification of suitable communities and project promotion

Génesis Empresarial plays an active role in selecting the communities to benefit from infrastructure projects. Génesis technicians locate communities that are close to existing infrastructure facilities. Development officers, the branch manager and the regional director visit selected
departments where Génesis is providing CILP services and select an initial group of potentially suitable communities. There is a preference for communities that have developed a fairly sophisticated organizational structure, as evidenced, for example, by the creation of Community Committees to handle other tasks for which the village as a whole is responsible.

The second step is for the responsible development officer and the branch manager to visit the short-listed communities and conduct initial talks with their representatives. This first conversation is used to explain application and implementation procedures and credit terms and conditions. If communities' representatives express interest in the project, Génesis staff conducts a second meeting with the entire community. At this meeting families decide whether or not they want to carry out the project.

Once the committee has been formally created through a simple registration procedure that can easily be obtained from the local government, cost estimates are calculated and the community submits an application to the relevant provider of the service (electric company or the like). Génesis usually advises the local people at every step of the way; drawing on its considerable experience in dealing with service providers, advisers make sure that cost estimates are reasonable and there are mechanisms to absorb any additional costs involved.

**Provision of loans**

For the preparation of loans, the responsible development officer organizes a meeting of all families interested in participating in the project and explains the rules for the creation of groups of borrowers under the principle of “solidarity liability”, where all members accept their joint liability. Once groups have been constituted, the loan officer assesses the payment capacity of all participating families in individual visits to households.

The responsible loan officer completes all credit documents that will be submitted to the credit committee for consideration. Decisions made by the committees at the branch are not final; all applications are forwarded to a second credit committee at headquarters where the executive director and the regional director make the final decision.

Loans are disbursed to the entire community through their representatives, but installment fees are collected from the individual families by one member of the group responsible for making the deposit on time to one of the accounts held by Génesis in local banks. In order to
ensure that borrowers maintain adequate discipline for repayment, loan officers visit the communities once a month following disbursement of the loans.

**Technical assistance to support implementation**

Génesis plays a supervisory role, monitoring the activities of construction firms and suppliers of services to avoid delays in the execution of work or related problems that increase the cost of projects. Génesis also helps the committees resolve disputes between the communities and the construction firms or service provider. Regular visits from loan officers gives them an opportunity to advise the community on ways of dealing with any other problems during the course of the project, even after its completion.

**Impact on rural development: the experience of San Juan Sacatepequez**

The presence of Génesis in San Juan Sacatepequez dates back to 1993. This is a community 31 kilometers northwest of Guatemala City with an estimated population of 137,136 in 2000. The main town had electricity but 23 of the 25 smaller towns were recently connected through a project financed by Génesis with funds from BCIE. A total of 2,965 families benefited from a loan of US $800,000.

In Los Guamuch, a town that is part of San Juan Sacatepequez, benefits from access to electric energy include a change in the schedule of activities at home, thanks to the greater number of hours with light and the availability of household appliances. Family income has increased with the diversification of activities and the creation of new businesses in the area.

Housing projects in Montufar have improved the health of the population and their sense of safety. Génesis is also supporting women through village banking projects to promote development of productive projects to increase their family income.

In the village Lo de Ramos, Génesis is assisting the community with credits for housing and to expand the coverage of drinking water. The immediate benefits were perceived as an improvement in environmental conditions, especially during the rainy season when dirt and humidity takes a toll in the health of the community. People in the community experienced substantial reduction in the time they spent to fetch water with a corresponding increase in the time spent on alternative productive activities.
### Important Impacts at San Juan Sacatepequez, Guatemala

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lighting</td>
<td>Candles, gas, ocote and batteries</td>
<td>9.00</td>
<td>Electric Energy</td>
<td>4.00</td>
</tr>
<tr>
<td>Communication</td>
<td>Only battery-operated radio</td>
<td>4.00</td>
<td>Radio and TV</td>
<td>2.00</td>
</tr>
<tr>
<td>Access Ways</td>
<td>Transport: Only by a highway in bad condition that did not connect to another nearby community</td>
<td>5.00</td>
<td>Creation of new direct access, decreasing travel time.</td>
<td>2.00</td>
</tr>
<tr>
<td>Health</td>
<td>Transport expenses to town due to lack of health care.</td>
<td>7.00</td>
<td>The community has local health care (hospital) and doctors</td>
<td>0.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>BEFORE (1993)</th>
<th>% DEVELOPMENT</th>
<th>AFTER (2000)</th>
<th>% DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Illiteracy rate</td>
<td>68%</td>
<td>Low percentage</td>
<td>33%</td>
</tr>
<tr>
<td>Productive activity</td>
<td>Commerce&lt;br&gt;Service&lt;br&gt;Agriculture&lt;br&gt;Migrant workers</td>
<td>5%&lt;br&gt;3%&lt;br&gt;90%&lt;br&gt;2%</td>
<td>Increase to&lt;br&gt;Increase to&lt;br&gt;Decrease to&lt;br&gt;Decrease to</td>
<td>20%&lt;br&gt;9%&lt;br&gt;70%&lt;br&gt;1%</td>
</tr>
<tr>
<td>Use of household appliances</td>
<td>Iron with coal, cooking with wood; smoky walls.</td>
<td>100%</td>
<td>Electric irons&lt;br&gt;Stoves&lt;br&gt;Refrigerators and other household appliances</td>
<td>70%</td>
</tr>
</tbody>
</table>

**Industrial machines**

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>BEFORE (1993)</th>
<th>% DEVELOPMENT</th>
<th>AFTER (2000)</th>
<th>% DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Gasoline water pump</td>
<td>100%</td>
<td>Electric pumps</td>
<td>30%</td>
</tr>
<tr>
<td>Commerce</td>
<td>Food and provisions sold without refrigeration</td>
<td>100%</td>
<td>Sales of refrigerated food</td>
<td>100%</td>
</tr>
<tr>
<td>Textile Production</td>
<td>Small-scale and manual</td>
<td>100%</td>
<td>Purchase of electric sewing machines</td>
<td>55%</td>
</tr>
<tr>
<td>Furniture Production</td>
<td>Manual machine with diesel pump</td>
<td>100%</td>
<td>Electric equipment</td>
<td>70%</td>
</tr>
</tbody>
</table>
Lessons Learned

The main characteristics of rural communities that constrain access to financial intermediation may be summarized as: poverty levels which are greater than those in urban areas; high levels of illiteracy; over-concentration in low-income agricultural activities and precarious occupations; low density of population; inefficient or non-existent infrastructure; poor transportation or none; lack of integration to urban markets; lack of guarantees to obtain loans from commercial banks.

This has an impact on financial intermediation: transaction costs are high, given the low density of rural communities, limited savings of individuals and low value of loans they demand; it is difficult to diversify risks due to deficient communications and lack of market integration; in the absence of risk-mitigating facilities, the risk of intermediation is high and linked to the production cycles of the rural economy.

Génesis Empresarial has tried to respond to these challenges by adapting loan facilities and institutional procedures to the needs of potential rural clients: Community and Solidarity Guarantees are used in communities where groups and/or communities are the fundamental economic base of the village. Génesis staff must be highly motivated and must identify with the mission of the institution and the needs of communities. In general, staff is hired in their own departments and is carefully trained in the management of financial projects. Work incentives use performance indicators assessed at the local branch level, including special emphasis on teamwork.

An important factor that explains the consolidation of Génesis Empresarial as a major player in rural finance is the diversification of sources of funds from private banks (both national and foreign) and also from international and bilateral organizations. Development of easy-to-access information systems has been important to keep records of all clients in each program, branch offices, advisory services provided, general information on each locality, and operational results of each program and office.

An important principle in the operations of Génesis has been the principle of sustainability of each credit program and each office. This involves the systematic evaluation of each program and cancellation of activities that are not sustainable. One of the main institutional objectives is to reach a minimum level of efficiency at each branch office and in each program.

While geographical dispersion is one of the main characteristics of poor rural areas, Génesis has tried to reach minimum levels of concentration of activities through the diversification of its portfolio in each community. The objective is to increase the level of productivity of individual
loan facilities, decreasing transaction costs and increasing profitability. An important principle making the operations of Génesis sustainable is to adopt market interest rates and avoid subsidies (market rates: 18-28%; Génesis: 24-30%; individual lenders, credit cards and others: 48-60%).

The quality of assets is an important factor that determines the administration of risk. Génesis has taken a flexible approach to accepting different forms of guarantees. Past mistakes have frequently damaged the portfolio and led to an important increase in reserves for development accounts with consequent increases in operational costs. This is an area carefully evaluated by the institution to avoid such negatives effects, but also taking into consideration the special characteristics of the rural markets where we operate.

It goes without saying that the overall conditions of the economy have a large impact over financial intermediation, especially when they include financial crisis, social unrest and politic problems. The situation prevailing in Guatemala since 1999 damaged credit programs, had a negative influence on the quality of the portfolio and led to a lack of liquidity, high financial costs and low profits. Financial re-engineering and flexibility are important to adapt to changing market conditions.
CHAPTER 14

Indonesia’s Microfinance and the Bri Unit System

By Sumantoro Martowijoyo*

Introduction

There are fewer studies on informal finance in Indonesia than any other Asian countries, and none include nationwide statistics.

Money lending is documented since the time of the Dutch administration. Bank Rakyat Indonesia (BRI, People’s Bank of Indonesia) originated during the Dutch colonial period, to help native government officials avoid indebtedness to moneylenders. In rural areas, loans were obtained from traders against the farmers’ standing crops. The sales price was fixed below the prevailing market price, in effect constituting a high interest rate charged to the farmers. Another usurious systems included land being leased by large landowners to small landowners for a fixed number of crop seasons, and the earnings from the harvested crop acting as interest on debt. Smaller loans could be obtained from retail traders of clothes or house utensils. In agricultural areas, farmers commonly got loans in the form of rice and production inputs from traders or shopkeepers, paying prices higher than those paid for cash purchases. Most of these kinds of financing are still available in rural areas and poor sectors of urban areas.

The widespread, traditional form of informal finance in the post-independence era is arisan, the Indonesian Rotating Savings and Credit Association (ROSCA). There are about one million arisan, found in all urban and rural areas.2 Membership tends to be small and contributions are mostly in money, although contributions in-kind are also made, such as rice, labor or building materials. There are arisan to purchase household utensils (usually for women); herds, roofs, plumbing or fencing (usually men); funerals and other religious festivities; or trips to the hometowns of workers.

* At the time of writing, M.S. Sumantoro Martowijoyo was the Chairman of the Center for Microfinance and Small Enterprise Development Studies, Indonesia.

1 Currency Unit: Rupiah (Rp). The rate of US $1 = Rp 8,000 is used in this paper for the period 1997 – 2001. It is an estimated mid-exchange rate for the period. In a volatile exchange rate situation, the conversion of Rp to US$ is often misleading and does not reflect the real value of the currency.

People commonly join more than one arisan. Some have developed lending and savings arrangement beyond those of traditional ROSCAs, where the group fund is used for giving credit and there is no rotation. In the last decade, Islamic solidarity groups called BMT (baitul maal wat tamwil) have also bloomed. All kinds of savings and loan associations, including arisans and BMTs, are referred to as kelompok swadaya masyarakat (self-help groups). NGOs play a considerable role and some government programs have also intensively promoted the development of self-help groups.

Despite plenty of microfinance institutions and self-help groups in Indonesia, moneylenders still operate in rural areas, though they are not flourishing as well as in the past, when they catered to the short-term needs of the poorer population. Some are disguising their activities behind the name of cooperatives, such as KOSIPA or KOVETRI. In some areas they are known as "bank harian" (daily banks), referring to the loans they offer, in which, for example Rp 100 is repaid in fixed daily installments of Rp 10 in 12 days.

Formal and Semi-formal Microfinance Institutions

Today there are many varieties of formal, semi-formal and informal financial institutions linked to subsidized government programs for sectoral development and poverty alleviation. The widespread existence of those institutions and programs has made the role of NGOs in microfinance much less significant than in any other country in the world.

Since the 1970s the government has actively intervened in the financial market by creating many program loans with regulated terms and conditions. This started with Bimas (Mass Guidance Program), a rice-intensification program and was followed by intensification programs for other commodities. To promote the development of indigenous small-scale entrepreneurs, the government has provided small investment credit (KIK) and permanent working capital credit (KMKP) since 1977 through commercial banks. For the micro-enterprise segment, Kredit Candak Kulak was channeled through KLIDs (village cooperatives), mostly for petty trading, while for other non-farm activities Kredit Mini and Kredit Midi were also available. All of these schemes were subsidized, charging below the market rate. During this period, branch offices of BRI administered 126 credit programs with different terms and conditions and reporting requirements. 3 Although banking deregul-

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lation in January 1990 reduced subsidized schemes, there was political pressure for the provision of program loans. The huge bad debts and misuse of funds during Bimas’ time in 1973-1983 was repeated by its successor, Kredit Usaha Tani (KUT, credit for farming activities).

The two latest mass programs introduced were the IDT (Inpres Desa Tertinggal or Presidential Instruction on Backward Villages) in 1993-1996, and the PKS (Pembangunan Keluarga Sejahtera, or the Prosperous Family Development) in 1996-1997. Within only one year of its implementation, the PKS Program claimed that it reached 9.8 million households in April 1997. The most recent program was JPS (Jaring Pengaman Sosial or Social Safety Net), designed to reduce the impact of the monetary crisis in 1998-1999, which had stimulated criticism and student demonstrations due to the misallocation of funds in many places.

Also beginning in the early 1970s, the central government and several provincial governments employed foreign aid, grants and subsidies to establish lembaga dana dan kredit perdesaan (LDKP, rural fund and credit institutions) in 10 provinces. The banking reform of 1988 caused new private bank offices and BPRs (bank perkreditan rakyat—people’s credit banks or rural banks) to mushroom in urban and rural areas. The Banking Law of 1992 simplified the system into bank umum (commercial banks) and BPRs, and required unlicensed LDKPs to apply for BPR status by October 1997.

Government-owned pegadaian (pawnshops), also originating in colonial times, also provide microcredit to the poor population.

Altogether, the following microfinance institutions operated in Indonesia in December 2000: 3,703 BRI units, 4,566 active BKDs (village credit institutions), 2,419 BPRs, 1,620 LDKPs, 685 pawnshops, 1,097 credit cooperatives and 35,218 saving and loan units (Table 1).

Women’s participation rates are very high in Indonesia’s microfinancial institutions. While women comprise 25 percent of BRI Unit customers, female borrowers average 50 percent in the LDKP system in seven provinces. Simplified processing procedures and no collateral requirements in the LDKP system have made it easy for women to gain access to credit.4

This paper will explore the design, principles and experience of the BRI Unit system, which is internationally considered to be successful in terms of the breadth of its outreach (at a level comparable only to the Grameen Bank) and its sustainability.

<table>
<thead>
<tr>
<th>TYPE</th>
<th>UNITS</th>
<th>OUTSTANDING BORROWERS (thousands)</th>
<th>OUTSTANDING LOANS (Rp million) (est. US$)①</th>
<th>AVERAGE LOANS (Rp thousand) (est. US$)①</th>
<th>DEPOSITS (Rp million) (est. US$)①</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRI Units①</td>
<td>3,746</td>
<td>2,675</td>
<td>8,013,900 ($1,002m)</td>
<td>2,995 ($374)</td>
<td>19,724,480 ($2,465m)</td>
</tr>
<tr>
<td>BPR-BKDs②</td>
<td>4,566</td>
<td>705</td>
<td>152,887 ($19m)</td>
<td>217 ($27)</td>
<td>31,702 ($4m)</td>
</tr>
<tr>
<td>BPRs-Non-BKD③</td>
<td>2,419</td>
<td>1,672</td>
<td>3,618,927 ($452m)</td>
<td>2,160 ($270)</td>
<td>3,081,718 ($385m)</td>
</tr>
<tr>
<td>LDKPs③</td>
<td>1,620</td>
<td>1,326</td>
<td>358,000 ($45m)</td>
<td>270 ($34)</td>
<td>334,000 ($42m)</td>
</tr>
<tr>
<td>Pawnshops③</td>
<td>685</td>
<td>10,000</td>
<td>793,000 ($99m)</td>
<td>793 ($99)</td>
<td>…</td>
</tr>
<tr>
<td>Credit Cooperatives③</td>
<td>1,097</td>
<td>655</td>
<td>530,814 ($66m)</td>
<td>810 ($101)</td>
<td>166,625 ($21m)</td>
</tr>
<tr>
<td>Saving &amp; Loan Units③</td>
<td>35,218</td>
<td>10,141</td>
<td>3,629,053 ($454m)</td>
<td>359 ($45)</td>
<td>1,156,804 ($145m)</td>
</tr>
<tr>
<td></td>
<td>49,351 [3 times the commercial banks'①]</td>
<td>27,124 [13% of total population]</td>
<td>17,095,951 [6% from the total commercial banks']</td>
<td>24,495,329 [3.3% from the total commercial banks']</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCES:**
④ Using exchange rate US $ 1 = Rp8,000, the real exchange rates were volatile, ranging from Rp4,250 to Rp12,000.
The BRI Unit System

The Bank Rakyat Indonesia (BRI, People’s Bank of Indonesia) originated in 1895, during the Dutch colonial period, with the establishment of Hulp en Spaarbank voor de Inlandsche Bestuurs Ambtenaren (Support and Savings Bank for Native Government Officials) in Purwokerto, Central Java. It was initiated by a native high official concerned about the indebtedness of most of his colleagues to moneylenders. The bank was later replicated and spread over many other districts.

In the same place and at nearly the same time (1898), 200 lumbung desa (paddy banks) were founded to lend poor farmers grain for seed or consumption. In 1904, bank desa (village banks) were also established. Both were later named dorpcreditinstellingen or Badan Kredit Desa (BKD, village credit institutions) and were headed ex-officio by the village leader. BKD lending was non-collateralized.

After the country became independent, AVB was renamed Bank Rakyat Indonesia (BRI) but underwent several changes before definitively regaining the BRI name in 1967, when it was given a mandate to supervise all the secondary banks, including BKD (BRI, 2000).

Evolution of the BRI Unit System

The BRI Unit Desa system was inaugurated in 1973 to extend the credit component of Bimas, the rice-intensification program. The government introduced the “green revolution” through Bimas, encouraging farmers to use new technology and inputs, including high-yield-varieties of rice, to boost rice production. Interest was set below the inflation rate and aside from assuming 75 percent of the credit risk; the government also paid BRI an administrative subsidy. Within a decade, some 3,600 Unit Desa were founded throughout Indonesia, functioning primarily as channeling agents for Bimas. Normal banking procedures, such as individual loan analysis, were omitted, since government officials were pushed to achieve lending targets. Not surprisingly, the units suffered losses in all but one year from 1970 to 1984 and default rates rose to over 50 percent in the early 1980s.

The Unit system was also implemented Kredit Mini in 1974 and Kredit Midi in 1980, which were directed to micro and small enterprises in rural areas. Lending and funding rates were also subsidized, but in other respects, these two programs followed normal banking

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5 Pandu Suharto, Sejarah Pendirian Bank Perkreditan Rakyat, LPPI, Jakarta, 1988
procedures of credit analysis and delinquency control. They grew rapidly and loan quality remained considerably high. In 1976, the units started collecting Tabanas, a national savings program sponsored by Bank Indonesia, which offered saving rates up to 15 percent. This was below the units’ lending rate of 12 percent, resulting in a negative spread and a disincentive.

In June 1983, the government began a series of measures that significantly deregulated the banking sector, especially removing ceilings on credit expansion and permitting banks to set their own interest rates on lending and savings. The Bimas program had been successful in bringing the country to self-sufficiency in rice production, and the expense of huge unit losses was offset by government subsidies of Rp 75 billion (US $102 million) at the end of 1984. Falling oil revenues and consequent fiscal cuts by the Indonesian government caused the discontinuation of Bimas. The Ministry of Finance encouraged BRI to move toward commercialization of the Unit system to provide basic banking services to the rural sector. This transformation required fundamental changes, especially to make each unit a separate profit center with its own balance sheet and income statement. Performance-based incentives were introduced and unit staff and other branch supervisors were retrained.

In February 1984, the units introduced Kupedes (general rural credit) as their basic program. Kupedes was designed to offer prompt availability and convenience of location identified as the most important factors to customers. Kupedes procedures were designed to be as simple as possible and many units that were previously located close to rice production centers were relocated to the economic centers of the respective sub-districts. In 1986, the Simpedes (Rural Savings) pilot project was launched.

**Basic Principles of BRI Unit Reorientation**

The BRI Unit system switched to the commercial approach in 1984, based on some principles learned from implementing Bimas:

1. Credit is made available to all creditworthy customers, not limited to a particular sector, commodity or target group.

2. The lending rate is set to cover all costs (including the unsubsidized cost of funds, overhead, loan losses) and to return a profit.

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6 BRI IVP, BRI Unit Products, undated, updated through interviews.
7 BRI IVP, Introduction to BRI’s Unit Banking System, draft, April 1992, updated through interviews.
All savings are mobilized voluntarily by paying a positive real rate of interest and by providing a choice of instruments with different ratios of liquidity and returns.

Services are provided at the commercial centers of the units’ working areas. They are conveniently accessible to customers.

Organizational Design

The Principles of BRI Unit Management

The units are part of BRI, so their organization and management must be compatible with the rest of the bank. However, as a provider of financial services for the rural population, the units have special characteristics that distinguish them from the rest of BRI. These characteristics are recognized in the four general principles for the management and organization of the units:

1. Decentralization. Each unit is a separate profit center, fully accountable for the results of its operations, and rewarded accordingly. Loan decisions, monitoring and collections, as well as savings mobilization, are the direct responsibility of the individual unit.

2. Standardization. By providing a limited number of loan and deposit facilities, and system-wide training, the units are trying to achieve a high degree of standardization in their operation. Standardization and simplification ensure accountability and transparency and reduce operating costs.

3. Local Supervision. Supervision of the units is done through the respective branch office to which a unit is attached. Direct, frequent, on-site monitoring is considered more important than indirect supervision through reporting.

4. Simple Information System. The number of reports is limited, to provide management with prompt, basic information. Reporting is aggregated as it moves from unit to branch, region and head office.

The Organizational Structure of BRI Units

BRI has developed the largest network of any Indonesian bank. As of February 2001, it had 12 regional offices and 318 branches covering all...
major cities and district capitals. Below the branch level, there are 3,724 units operating at sub-district capitals and their associated 286 service posts to enhance services at the village level.

Micro banking is one of the four strategic business units (SBU) of BRI, along with retail, commercial, and investment banking. At the end of 2000, the units had total assets of Rp 22 trillion (US $2.75 billion), 24 percent of BRI’s total; loans extended were Rp 7.8 trillion (US $975 million), 15 percent of BRI’s total; 24,168 personnel were employed, more than half of BRI’s total employment. The Unit system has been consistently profitable since 1986 and has been the major contributor to BRI’s overall profits.

**Structure of Units**

The organizational structure of a BRI unit is kept simple and transparent, and the basic unit staff consists of four persons: a unit manager, a credit officer, a teller and a desk person/bookkeeper.

Village service posts are sub-unit banking offices operated by a two-person team from a nearby unit; they collect repayments and applications, but do not make loans. Service posts with a sufficient volume of business can be promoted to units, while units with deteriorating volume of business may be downgraded to service posts.

Each branch supervises 11 units on average, while above the branch offices there are 15 regional offices. Each of these has a Micro Department, which monitors the financial performance of the unit and takes corrective actions if appropriate. The regional office also coordinates the support facilities of units, such as recruitment and computer services. The Internal Audit Office carries out periodic audits of individual units.

At headquarters in Jakarta, the Micro Business Division monitors the overall performance of the units and determines policies and strategy as well as operating regulations for the system. It also coordinates unit policy and activities with other relevant divisions of BRI.

**Staffing of the Units: Recruitment, Incentives and Training**

BRI has developed activity standards for employment and recruitment as a basis for determining the number of staff needed at the unit and branch level:

**Unit Staffing**

- **Manager**: one per unit.
PRIORITIES AND STRATEGIES IN RURAL POVERTY REDUCTION

○ **Credit Officer**: an additional credit officer is needed when the number of loans, excluding loans against fixed income, exceeds 400.

○ **Teller**: an additional teller is needed when the average number of cash transactions per day exceeds 200 for a six-month period.

○ **Bookkeeper**: an additional bookkeeper is needed when the average daily number of posting of entries, excluding posting of interests, exceeds 150 over a six-month period.

The total number of employees is limited to 11. If more employees are needed, units are split to maintain small-scale operations.

**Staffing at the Branch Level**

○ **Unit Business Manager (UBM)**: one per 4 units.

○ **Unit Development Officer (UDO)**: one per nine or more units. Branch offices with a large number of units may have a second UDO.

○ **Administrative Employee**: one per 15 units.

○ **Reserve Staff**: based on a formula, which produces an average of 3-4 percent of total employment of the units under a branch’s supervision.

High school graduates are recruited from the local district or sub-district, while in Java and urban areas there is a tendency toward choosing candidates with at least a three-year university background. A hardworking and competent employee can become a unit manager and to go on to supervising jobs.

Each year, 10 percent of a unit’s annual profit is distributed to the respective unit’s employees and supervisors as a bonus, capped to a maximum of two months’ salary per employee. Since almost 95 percent of the units are profitable, around 95 percent of the total 20,778 employees benefited from this scheme.

There is also a semiannual unit performance competition, based on a set of criteria comprising profitability, savings mobilization, portfolio quality, and volume of lending. The employees and supervisors of all units meeting the criteria get cash awards and the best ten units get additional awards.

BRI is convinced that investment in human resources has been a key in achieving success, so it has a strong commitment to training. Five regional training centers were built, each equipped with classrooms and discussion rooms, a dummy bank, a dormitory, dining facilities, a library,
and sport facilities. A total of 6,000 to 8,000 unit staff and supervisors are trained annually by 75-80 instructors chosen from BRI staff. Three types of regular training are provided: recruitment, development and refresher.

**Supervision of the Units**

The branch office supervises the units and intensive on-site monitoring is stressed. BRI believes that direct interaction between the supervisor and supervisee is more effective than indirect supervision through reporting. The branch manager has the final responsibility for all the units reporting to the branch and makes a monthly evaluation based on the reports received. The manager also visits the units regularly and makes regular assessments. The UDO reports directly to the branch manager, supervises the UBMs, and shares in the continuing evaluation and monitoring of the units.

The UBMs is the key figure in the decentralized supervision of the units and has dual functions, as conventional supervisor and problem-solving adviser. As part of his/her financial supervision role, the UBM conducts a simple running audit, including cash verification and reconciliation. On the problem-solving side, the UBM reviews with the unit manager the monthly unit development report and prepares the unit’s annual work plan, as well as a detailed short-term action plan.

Field-oriented supervision and monitoring accounted for 1.2 percent of loans outstanding or 17.8 percent of unit staff costs, but this substantial expenditure is justified as a way to maintain portfolio quality.

The Internal Audit Divisions, based at the regional offices, conduct a comprehensive audit of the units yearly and are also called upon if there are suspected financial fraud or irregularities.

The units have developed a simple management reporting system, designed to provide management with the information they need in due time and in the appropriate degree of aggregation, to avoid excessive or over-detailed reporting. There are five management reports submitted monthly by the units, which provide almost all the information needed by management:

1. **Kupedes Loan Report**: reports outstanding amounts, overdue amounts and write-offs. This is used at the unit and the branch to analyze loan volume and quality.

2. **Unit Development Report**: the basic report used by the branch offices to review the performance of units; it contains a monthly time-series of all financial data, daily activities and number of staff.
Achievement of Targets: compares monthly performance with targets set in the unit’s annual plan, especially for income, expenses, profit, loans, deposits and overdue amounts.

Monthly Balance Sheet: a detailed monthly balance sheet produced within 2 days after the end of the month by each unit.

Monthly Profit and Loss Statement: each unit reports its own direct costs, including loan provisioning and write-offs of bad debts, plus the costs of supervision incurred by its supervising branch.

Branch-level supervisors receive monthly reports from their supervising units 2-7 days after month-end. Each branch office reports basic operating and balance sheet data within one week after the end of the month. Each regional office sends an aggregated regional telex to the head office within 10 days, followed by a detailed monthly report. At the head office, a national telex report is prepared, followed by a detailed monthly report aggregated regionally and nationally.

Product Design of BRI Units

Since the core business of the unit system is extending small loans and mobilizing savings, other products and services are added only if they support the core activities. Within this framework, product development of the BRI units is based on three fundamental criteria:

1) Responsiveness to customers’ needs: All products introduced should be preceded by field surveys on what customers want and what changes should be made to existing products.

2) Profitability: In pursuit of sustainability, the units must cover all of their operating and financial costs without subsidy. Continuing monitoring of cost and income structure of each product is essential, as market conditions may change any time.

3) Simplicity: Only a limited number of broadly marketable products are offered. Product implementations are simple and transparent, helping to simplify supervision and accountability.

Kupedes (Kredit Umum Perdesaan, or General Rural Credit) was introduced in 1984 as a starting point for the commercial approach and remains

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BRI IVP, BRI Unit Products, undated
the single loan product of the BRI Unit system today. Kupedes is a general-purpose credit. Loans are made to all creditworthy individuals with ongoing productive activity, not specifically directed to a particular sector or group. The units do not give loans to groups to start new ventures, because they are considered a higher risk. Experience has consistently shown that prompt availability of credit and convenience of location are the most important criteria, while interest rate was ranked lower.

To apply for Kupedes, the applicant should identify one household enterprise or an occupation that makes him/her capable of repaying the loan. A survey reported that the average rural Indonesian household had 3.6 productive activities. The most frequent request is for loans to finance retail or wholesale trading. Loan purpose is also classified as “working capital” or “investment”. More loans are classified as working capital since they need less documentation and the majority goes to the ongoing trade sector, which does not need further investment.

Loans for consumer consumption purposes such as weddings, funerals or health care are discouraged. House improvement and children’s education have been considered consumption in the past, but recently are becoming acceptable.

Kupedes loans originally ranged from Rp 25,000 (US $25) to Rp 1 million ($1,000), but the maximum was raised gradually to its present level of Rp 25 million ($10,800) at the end of 1995. In that year, the majority of loans fell under the category of Rp 500,000 to Rp 1,000,000 (30.0%) and Rp 1,000,000 to Rp 2,000,000 (31.8%). Despite the increase in maximum loan size, the units continued to serve the needs of relatively small borrowers. The average loan size has increased over the years, from Rp 1,300,000 in 1990 to Rp 2,995,000 in March 2001.

Kupedes terms are designed to offer flexibility to cater to the borrowers’ needs within a standardized package of loan terms. Borrowers can choose terms ranging from three to 24 months for working capital and up to 36 months for investment loans. Repayment options are available. In practice, 12- and 24-month maturities dominate. The great majority of Kupedes terms are monthly payments. This is beneficial to building discipline among borrowers, simplifying loan records and monitoring, and also to screening good borrowers who would be entitled to further loans.

A borrower may have only one investment loan and one working capital loan at the same time, with the total amount not exceeding Rp25 million.

When Kupedes was designed in 1984, the interest rate was not really a “market” rate, but rather a “break even” rate, since the market rate at the village level was much higher. Later, a single-rate system was applied and no distinction was made between investment and working capital loans.
From 1995 to June 1998, a multiple-rate system was fixed according to the loan amounts. During July 1998 a single rate of 2% flat per month was applied. During the monetary crisis of 1998 this was raised to 3%, but it has since been dropped back to 2%.

An incentive for timely repayments (referred to as IPTW or Insentif Pembayaran Tepat Waktu) is incorporated into the interest rate. The IPTW is refunded if all payments during a six-month period are made on time. If one or more payments are not paid on time, the IPTW for that period is forfeited to the bank as a late payment penalty. On a monthly payment loan, a six-month IPTW refund is equal to about 30 percent of a monthly payment, making it a real incentive for borrowers. On average, 90 percent of Kupedes borrowers were entitled to receive the IPTW.

BRI requires collateral for Kupedes loans, except for micro-loans, up to Rp 500,000. However, the units rarely take legal action to collect collateral, except in cases of suspected fraud. The units are flexible in accepting proof of land ownership, accepting such documents as receipts for land tax payments. The units also accept other kinds of fixed or movable assets as collateral, such as a motorcycle or TV.

To assess an applicant’s creditworthiness, the Credit Officer meets with the applicant, then visits the site of his/her business to collect further information about business activities, proposed loan use, other income sources and credit history and constructs a simple balance sheet and income statement. The Credit Officer also fills in a collateral report, which gives details on the assets that will secure the loan. If the applicant is not well known to the unit management, the Credit Officer or the Manager will go to the village head to check on the applicant’s character.

For loans above the Unit Manager’s authority, decisions are forwarded to the supervising Officer or the Branch Manager. At present, the largest amount under a Unit Manager’s authority is Rp5 million ($2,200 at the 1995 rate), which is adequate for the majority of loan applications.

Approval time for repeat lending to good customers within the authority of Unit Managers is 2 to 3 business days, and for new borrowers, 4 to 5 days. If branch level approval is needed, the approval usually takes a week to 10 days.

Although the unit monitors all borrowers during the life of the loans, there is no effort to make a detailed supervision of the use of the loan. The important point is for borrowers to use the loans profitably and make repayments as scheduled.

Monthly visits to customers are considered an opportunity to keep up the relationship. For very small loans, the unit staff may feel it is not necessary to visit the customers, as long as the payments come on time.
Large loans, which have a potential exposure to loss, call for more direct and frequent contact. All borrowers are visited at least once a year.

_Delinquency and Portfolio Quality_

An unpaid installment is classified as overdue one week after its due date. Loan loss reserves at the units are calculated monthly as follows:

1. 3 percent of total outstanding principal, plus
2. 50 percent of all balances on loans up to 3 month past the final due date, plus
3. 100 percent of all balances on loans 3 months past the final due dates.

All balances of loans 12 months past due are written off completely, although collection efforts continue. This approach provides a conservative estimate of portfolio value and avoids the risk of biased or over-optimistic judgment by the Manager.

The Unit system uses four indicators of portfolio quality:

1. **Portfolio Status**. Measures the aggregate amounts of overdue principal installments compared to the total principal outstanding.
2. **Long-Term Loss Ratio**. Measures the cumulative amount overdue and unpaid since the opening of the unit, compared to the total, which is already due.
3. **Short-Term Loss Ratio**. Measures monthly changes in the components of the Long Term Loss Ratio.
4. **12-Month Loss Ratio**. Measures the change over the last 12-month period in the components of Long-Term Loss Ratio. This is considered to be a more useful indicator of changes in portfolio quality, since it covers a period long enough to avoid short-term volatility, but short enough to reflect portfolio trends.

_Savings Products of BRI Units_

Until 1984, _Tabanas_ (the national savings program initiated by Bank Indonesia) was the only savings instrument available at BRI units and throughout the banking system. Before 1990, withdrawals were limited to twice per month, but each bank is now permitted to set its own rates and terms. Since it was designed to also attract small depositors and school-children, only Rp 2,500 ($1) was required to open an account. Tabanas
also offers cash prizes in a semi-annual lottery. Tabanas accounted for 9.6 percent of total unit deposits at the end of March 2001, with an average balance of Rp 323,300 ($40).

After the introduction of Kupedes, BRI conducted an extensive survey to help design its savings instruments. It was revealed that people in rural areas could be motivated to save if the terms and conditions of the savings facilities were designed to meet their preferences. The factors considered most important by respondents were: (1) safety and security, (2) liquidity (can be withdrawn any time), (3) convenience (locations close to customers’ homes or workplaces), (4) prizes (lotteries), (5) interest rate, (6) other factors: confidentiality, access to credit and quality of service.

Simpedes (Simpanan Perdesaan or Rural Savings) was introduced nationally in 1986. It was tailored to the customer preferences noted above. Simpedes grew extremely fast and has accounted for 60-65 percent of total unit deposits since 1993. At the end of March 2001 there were 12.3 million accounts with an average of Rp 683,100 ($85).

When BRI expanded its Unit Desa to urban areas in 1989, Simaskot (Simpanan Masyarakat Kota or Urban People’s Savings) was introduced. Simaskot is different from Simpedes in that a higher minimum balance is required to get interest, lotteries are drawn at the provincial rather than district level, with prizes in cash rather than in kind, and there is a higher rate of interest for different balances. Like Simpedes, there is no limit for withdrawals. Interest rates are higher to attract urban customers who save larger amounts. Simaskot is also available in many rural units. At the end of March 2001 there were 2.0 million Simaskot accounts, with an average balance of Rp 1,038,000 ($130), 11 percent of total unit deposits.

The units also provide deposito, BRI’s standard time deposits or certificate of deposits, with maturities ranging from one to 24 months. Deposito is less liquid than other deposit products, but usually carries the highest rate. Deposito funds are more volatile than those of Kupedes and Simaskot. In March 2001, there were 290,142 deposito accounts, which amounted to 16 percent of total unit savings with an average of Rp 10,876,000 ($1,360).

Two other savings instruments, giro (demand deposits) and Tabungan Haji, a savings scheme to finance the haj pilgrimage, account for only 2 percent of total unit deposits.

Units charge fees for other services, such as making transfer payments for customers and non-customers; acting as payment points for telephone, electric and property tax payments; and acting as paymaster for teachers, army staff and retirees.

Because the costs of maintaining very small savings is high as compared to the benefits gained, no interest is paid on Tabanas and Simpedes.
with a monthly balance of less than Rp 10,000 ($4), and Simaskot with a
monthly balance of less than Rp 25,000 ($11).

With the remarkable development of Simpedes, savings in the units
far exceeds loans by close to a two-to-one ratio. The excess deposits at a
unit are sent to its supervising branch. Unlike the units, branches tend
to be net deposit users, so that they benefit from that excess liquidity.
The units receive a “transfer price” that is above the units’ cost of funds.
Excess deposits are also used as a signaling device to the units as to
whether they should emphasize savings mobilization or lending. When
BRI wants to encourage savings mobilization or slow down lending, the
transfer price can be raised. If the transfer price is only one or two points
above the cost of funds, or additional deposits to the branch office are
just at breakeven or marginally profitable, a concerned unit manager
would prefer to boost lending to get a higher profit.

**Problems in the Development of BRI Units**

When the Bimas program, for which the unit system was originally estab-
lished, was terminated in 1984, BRI had to decide whether to close those
3,600 units with around 14,000 experienced staff or switch to a system of
commercial banking units. BRI decided to retrain the units and staff, and
providing attractive incentives combined with intensive direct supervision.

Microbanking also required a different management culture than that
of the commercial banking business carried out by the rest of BRI. Not
surprising, despite what some writers have reported, BRI’s top manage-
ment only half-heartedly accepted the idea of commercialization, to a
great extent because there was no other choice.10 Only with strong sup-
port from the Ministry of Finance and after some signs of success did the
president, director, and the director-in-charge became keen supporters of
the Unit system.

To broaden its outreach, the first step in the commercialization of
the system was to relocate units to commercial centers or district capitals.
Since the relatively poor people who need financial service do not only re-
side in rural areas, the BRI unit desa system was expanded to urban areas
in 1989 and the name was shortened to “unit” system.

Another problem was the collateral requirement. It was presumed
that the rural population do not have assets to be taken as collateral and
if borrowers do own properties, most are not supported by title or legal

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10 Interview with the late Mr. Sugianto, the BRI managing director in charge of Unit Business.
proof of ownership. BRI units solved these problems by flexibly accepting all kinds of fixed and movable assets as collateral. The units are also flexible in accepting any paper as proof of ownership, including receipts for land tax payments, which commonly are supported by a letter of authorization to the units to obtain the title if the borrower does not repay. A survey done by BRI revealed that 90 percent of households own some kind of assets that qualify as collateral, so this is actually not a major obstacle to provide credit.

Although at first Kupedes was financed by government funds and foreign aid, the units soon became capable of sustaining their operation mainly on the basis of savings. The conventional assumption was that the rural poor were too poor to save and were not receptive to any motivation to save. The Tabanas experience, however, indicated that people need and want to save.

Another problem was the high operating cost of providing many small loans and collecting small savings. Solutions involved simplification and standardization of products and procedures, as well as decentralization.

When they shifted to a commercial orientation in 1985, the units inherited a management reporting system that was the result of the 14-year implementation of the Bimas program. Additional reporting was added to cater to the commercial dimension, but it was soon realized that the amended system was excessive, overlapping and ineffective. The units’ reporting system was then redesigned to provide only the needed information: reporting of individual loans at the points of lending, increasing aggregations as reporting moves up the management ladder, and development of summary indicators that permit top management to review lending and funding on a portfolio-wide basis. The revision sharply reduced the number of reporting forms from 57 to only 16, while at the unit level reports were reduced from 25 to five.

Performance of the BRI Unit System

Between 1984, when Kupedes was introduced, and the end of March 2001, BRI units lent out more than Rp 49.9 trillion (U.S.$6.1 billion). During 2000, the units disbursed around 160,000 loans per month with an average size of Rp 2.4 million ($1,025). At the end of March 2001, there were 2.6 million outstanding Kupedes loans amounting to Rp 8,014 billion ($1 billion).

Kupedes loan quality was excellent. The long-term loss ratio—the percentage of overdue and unpaid loans to the total due since the introduction of Kupedes—was only 2.15 percent at the end of 2000.
The combination of appropriate products and an effective incentive and marketing approach resulted in a dramatic increase in savings mobilization beginning in 1986. At the end of 1995, the units’ savings made up 43.8 percent of BRI’s total deposits, representing 30 percent of the total savings account and 12.5 percent of total deposits in Indonesia’s banking system. This fact shattered widely-believed myths concerning the difficulties of mobilizing local savings in developing countries. In March 2001, the total value of savings was Rp 19.7 trillion ($2.5 billion). The ratio of deposits to loans exceeded 2.0 in 1992 and in March 2001 was 2.46.

The units suffered losses in 1984 and 1985, but by March 2001 profits reached Rp 268.4 million or a 5.9 percent return on assets. While in 1984 only 13.6 percent units were profitable, this figure rose to 94.1 percent in March 2001.

In comparison to Grameen Bank, in 1996 BRI units served 2.5 million borrowers with total loans of US $1.7 billion, while Grameen Bank had 2.1 million borrowers with total loans of US $200 million. Subsidies aside, BRI has the highest ranking among the prominent microfinance institutions in the world. Based on 1989 data, the subsidy dependence index (SDI) of BRI units was –8 percent, as compared to +130 percent for Grameen Bank, meaning that eliminating all subsidies, Grameen Bank should increase its lending rate by 130 percent, while the units could lower theirs by 8 percent.12

However, there are basic differences between BRI units and Grameen Bank: (1) BRI units serve a broader and better-off population, including micro-enterprises and employed clients, while Grameen Bank focuses on poor rural households; (2) BRI finances its operations through local deposits that significantly exceed the loans, while Grameen Bank operates at about break-even and depends on international aid; (3) BRI units serve only financial activities, while Grameen Bank also carries out development activities beyond those services.

BRI units were tested when the government implemented a tight money policy in 1991. Since liquidity diminished from the banking system and since banks were competing for deposits, interest rates were driven up. The units were the major source of funding, so BRI set a very high transfer price for units depositing funds with branches. At the same time, some areas suffered from a drought that caused the default rate to increase to 8.6 percent.

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by the end of 1991. Those two reasons compelled BRI to discourage lending and decrease the maximum caseload of credit officers, while focusing efforts to reduce defaults. Kupedes lending experienced negative growth of –3 percent in 1991. As the liquidity crisis gradually subsided in 1992 and the default rate came down, BRI altered these policies and redirected incentives back to lending. However, this has been a slow and difficult process.13

The monetary crisis of 1997-1998 affected Indonesia more drastically than other countries in East Asia. While BRI experienced a high rate of non-performing corporate loans, its unit system showed its strength. The repayment rate of Kupedes remained excellent during the crisis, with a short-term loss ratio of 3.43 percent in December 1999.

Some reasons for this good repayment performance are: (1) Kupedes is easily adjusted to borrowers’ cash flow; (2) borrowers are mostly engaged in domestic products with little or no import content; (3) the rural sector may be less affected by a monetary crisis than the urban sector; (4) borrowers seem reluctant to break their banking relationship with the units even if they have to squeeze consumption to make repayments on time. Also, the units leave the window open to subsequent loans to borrowers who pay on time. BRI has learned from its earlier experience when it discouraged lending for fear that savings were going to decline: the result was an increase in the number of borrowers who did not pay on time.14

It was surprising that the units experienced a rapid increase in savings during the crisis, from a total of Rp 8.8 billion at the end of 1997 to Rp 16.1 at the end of 1998, as did BRI savings as a whole. For the most part, this was a “rush to safety”, after several private banks were closed down or taken over by IBRA (Indonesia’s Banking Restructuring Agency). Even though all deposits at all banks have been guaranteed by Bank Indonesia, savers avoided the lengthy procedures involved in recovering their savings. There was a change in the composition of savings at the units, with time deposits being the major component due to the drastic interest rate increase from 19 percent to 60 percent in September 1998. The rate fell back to 18 percent in July 1999. The rate paid to Simpedes increased from 16 to 20 percent during the same period. Despite the higher interest rates of time deposits, passbook savings steadily increased, totaling more than four million new accounts from January 1998 through May 1999.

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Performance Indicators of BRI Units

The following table summarizes the key indicators of the current performance of BRI units:

<table>
<thead>
<tr>
<th>NO</th>
<th>PERFORMANCE INDICATORS</th>
<th>NUMBER/VALUE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of Units</td>
<td>3,746</td>
</tr>
<tr>
<td>2</td>
<td>No. of Employee</td>
<td>20,778</td>
</tr>
<tr>
<td>3</td>
<td>Total Loans Disbursed (up to Feb. 2001)</td>
<td>$6.14 billion</td>
</tr>
<tr>
<td>4</td>
<td>Outstanding Loans</td>
<td>$1 billion</td>
</tr>
<tr>
<td>5</td>
<td>No. of Borrowers</td>
<td>2.675 million</td>
</tr>
<tr>
<td>6</td>
<td>Average Loan Amount</td>
<td>$374</td>
</tr>
<tr>
<td>7</td>
<td>Range of Loan Amounts</td>
<td>$62.50 – 3,125</td>
</tr>
<tr>
<td>8</td>
<td>Outstanding Savings</td>
<td>$2.5 billion</td>
</tr>
<tr>
<td>9</td>
<td>No. of Savers</td>
<td>26.331 million</td>
</tr>
<tr>
<td>10</td>
<td>Average Saving Amount</td>
<td>$94</td>
</tr>
<tr>
<td>11</td>
<td>Range of Savings Amounts</td>
<td>$2.50 – 2,500</td>
</tr>
<tr>
<td>12</td>
<td>Interest Rate for Loans</td>
<td>2% flat per month</td>
</tr>
<tr>
<td>13</td>
<td>Average Interest Rate for Savings</td>
<td>9% p.a.</td>
</tr>
<tr>
<td>14</td>
<td>Portfolio Status (arrears)</td>
<td>2.47%</td>
</tr>
<tr>
<td>15</td>
<td>Net Profit (Feb. 2001)</td>
<td>$2.2 million</td>
</tr>
<tr>
<td>16</td>
<td>Return on Assets</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Source: BRI, Micro Business Division and International Visitor Program
*except otherwise mentioned, all data are as of March 2001
The figure shows the impressive growth of savings and depositors at BRI units from 1990 to March 2001.

Impact Evaluation
From an impact survey on Kupedes borrowers who had participated for three years with average loans of Rp. 466,000 ($251) in 1990, the following findings were revealed:\textsuperscript{15}

Impact on poverty
In 1986, 15.1 percent of Kupedes borrowers were below the poverty line and not significantly better off than the general population. After three years of taking Kupedes, only 4.17 percent of them were still poor.

Impact on micro enterprises

1. After three years of participation, real profits grew by 93.4 percent: (a) trade enterprises doubled or tripled the amounts of goods bought and sold; (b) small industry doubled and tripled their production; (c) borrowers who previously obtained trade goods or raw materials on credit and paid high interest rates could pay cash at lower prices; (d) borrowers who previously experienced discontinuity in business due to lack of working capital could work continuously through the year.

2. Total employment in borrowers’ enterprises increased at an annual rate of 18.2 percent in terms of employees and 22.5 percent in annual working hours.

3. Borrowers’ enterprises began to rely more on hired labor than before: the share of unpaid family workers declined by 6.6 percent while employment of piece-rate workers increased by 13.7 percent (mostly women who work at their own homes to complete the orders).

Impact on Household Income
The total income of borrower households grew 20.7 percent annually, since micro-enterprises contribute 64 percent of total household income.

\textsuperscript{15} Ann Dunham Sutoro, op. cit.
In comparison, average rural per capita incomes increased by 3.8 percent yearly between 1984 and 1987.

**Impact on Land Ownership and Capital Investment**

Many landless families used the profits of their microenterprises to buy small plots of cropland: 8.3 percent bought rice fields and 10.4 percent bought dry fields; borrowers who owned productive machinery increased from 14 percent to 26 percent; borrowers who owned vehicles used at least partly for business increased from 28 percent to 44 percent.

**Impact on the Standard of Living**

It was reported that many borrowers:

1. were able to buy new clothing, furniture, vehicles or appliances (radio, TV, tape recorders);
2. made housing repairs, added new rooms to their houses, or even built new houses;
3. were able to go to a health clinic and give birth at a maternity house (instead of traditional medicine men and midwives);
4. more frequently consumed protein-rich foods such as meat and fish;
5. were able to have savings in the form of gold, jewelry or savings account at banks (Simpedes or Tabanas);
6. were able to increase spending on school fees and school-related expenses by 64.8 percent.

The success of BRI units has encouraged the expansion of other banks, mostly private commercial banks and BPRs in rural areas. BRI’s success in providing profitable, non-subsidized financial services to the rural poor has strongly influenced government regulation of banks.\(^{16}\) In the banking reform of January 1990, the provision of subsidized liquidity credits from the central bank was reduced to only those supporting the development of cooperatives, preservation of food self-sufficiency, and the development of the eastern regions of Indonesia.

Lessons Learned

BRI has learned many lessons and applied these elements of success to the organization and products of its unit system:17

1 Sensible financial policies to maintain the viability of the units, especially highly positive interest rates to cover the high risk and high costs of small size transactions.

2 Effective incentives for stakeholders (borrowers, savers and employees): performance-based incentives for employees, meeting customers’ needs, along with incentives for timely repayment and eligibility for repeat loans for borrowers, and lotteries for savers.

3 Decentralization of decision-making, in this case the application of the profit-center concept, in which each Unit Manager is given authority as well as accountability for the operations of his/her unit.

4 Provision of savings and loans facilities, as opposed to serving as simple agents to channel targeted credit. The experience of the units has proven that the provision of a savings facility is more important to most rural people than granting credit.

5 Effective investment in human resources through intensive training, aside from salary and incentives.

6 Flexible acceptance of collateral and the use of social mechanisms in lending procedures.

Preconditions for Replication

Replication of any institution from one country to another cannot be done mechanically. Some issues that may be considered in adapting the BRI Unit system to other countries include:18

The social and economic context: stable macroeconomic policy and political climate, economic growth, high population density, well-developed infrastructure, social cohesion that supports the application of social mechanisms, strong presence of government at all levels, and a pool of unemployed but fairly well-educated youth, which allows staffing with talented but relatively low-cost local personnel.


18 Based on James J. Boomgard and Kenneth J. Angell, Chavez and Gonzales-Vega, op. cit., and the author’s observations.
Liberalization of financial markets, allowing interest rates to be set at commercially viable and cost-based levels.

A strong sponsor or parent institution with interested and consistent leadership. The Unit system was fortunate to be backed by the vast network and long experience of BRI in rural finance, as well as interested and consistent top management.

Government and donor agency support that do not create organizational dependence in the form of competent technical assistance and seed capital. External support is needed to keep the program on track vis-à-vis changes in government policies or management with an interest in diverting the original focus of the program.

Conclusions

Indonesia’s microfinance sector is large and complex. It has a wide range of formal and semi-formal microfinance institutions that serve the poor on a sustainable basis, along with ongoing subsidized credit programs as part of a government strategy for poverty reduction.

The BRI Unit system has diligently learned from its own experience as a conduit of subsidized credit programs and it successfully became one of the largest and most sustainable microfinance institutions in the world.

With its vast network throughout the country, broad outreach and motivated human resources, the BRI Unit system has contributed to reduce poverty, increase employment, and improve the standard of living of the rural population.

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CHAPTER 15

Microfinance Sector in Vietnam

By Dao Van Hung

Introduction
This paper summarizes the experience of the microfinance sector in Vietnam. It goes further to discuss the experience of the Vietnam Bank for the Poor (VBP) and draws some of the lessons learned for further development of microfinance in Vietnam.

Poverty Situation
Despite the high growth rate of recent years, Vietnam, with an estimated population of 76.7 million, remains one of the poorest countries in the world. According to the UNDP Human Development Index (1997), Vietnam ranks 121st out of 130 countries analyzed.

Vietnam has made substantial progress in moving from a predominantly centrally-planned economic system to a relatively liberalized market economy. Economic reform, or Doi Moi, has been taking place in Vietnam since the late 1980s, with significant improvements in terms of accelerated growth and inflation reduction.

It is estimated that in the mid-1980s, seven out of 10 Vietnamese were living in poverty. After a little more than a decade of rapid economic growth, the incidence of poverty halved. The proportion of people under the absolute poverty line continue to decline from 58 percent in 1993 to 37 percent in 1998. The number of people below a “food poverty line”, which is lower, also declined from 25 percent to 15 percent, indicating that even the very poorest segments of the population improved their living standards in 1993-1998—an impressive accomplishment.

In 1998, almost 80 percent of the poor worked in the agricultural sector, suggesting that future efforts at poverty reduction still need to focus on rural areas. The poor have relatively low levels of education and lack functional skills and information. Ninety percent of the poor have secondary school education or less. Households with many children are often

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1 At the time of writing, Dr. Dao Van Hung was Vice-Director of Microfinance Resource Center, National Economics University, Hanoi, Vietnam.

2 Throughout the paper we will use the exchange rate of US $1 = VND 14,500

ranked as poorer. The poor have less access to material resources such as land and credit and less access to social and physical infrastructure.

**Infrastructure of the Microfinance Sector**

The Doi Moi (renovation) policy, launched in 1986, initiated significant changes in the Vietnamese financial system in general and rural credit service development in particular. The microfinance sector in Vietnam has three sectors: *formal*, *semi-formal* and *informal*.

The *formal financial sector* is dominated by four groups of financial institutions operating under the permission and supervision of the State Bank of Vietnam (SBV).

- Two State-owned commercial banks including Vietnam Bank for Agriculture and Rural Development (VBARD) and the VBP.
- 19 rural private banks—or Rural Shareholding Banks (RSHBs)
- 981 People’s Credit Funds (PCFs) owned by members who are mainly farmers.
- 69 Credit Cooperatives owned by members who are mainly farmers.

The *semi-formal sector* is characterized by agencies officially recognized by the government, but neither legally regulated nor supervised by the SBV (the Central Bank); for example, the Vietnam Women’s Union (VWU), the Vietnam Farmers’ Union (VFU), national programs (employment creation program, national programs for hunger eradication and poverty reduction (HEPR) and national programs for greening barren hills), and international non-governmental organisations (NGOs).

*Informal financial services* include those provided by families, friends, traders, unregistered private moneylenders and traditional rural credit associations. These services are generally convenient and locally based with simple transaction procedures. Notably, service providers in this sector follow the market interest rate approach.

Vietnamese microfinance institutions charge different levels of interest. Formal and regulated microfinance institutions must comply with the ceiling interest rate(s) announced from time to time by the SBV. These ceilings differ according to the institutional characteristics of the institutions (e.g. commercial banks, development banks).

Other institutions, such as social organizations (VWU, VFU) and NGOs, which are currently taking advantage of ‘legal loopholes’, charge higher interest rates in a bid to demonstrate that sustainable microfinance
TABLE 1: Comparative Indicators of Microfinance at the end of 2000

Population: 78 million people in Vietnam; Total rural households: 12 million
Estimated poor households (PH): 5.4 million

<table>
<thead>
<tr>
<th>Financial institutions &amp; semi-formal sector</th>
<th>Total number of customers</th>
<th>Total of number of poor customers (Total of poor households: 5.4 million)</th>
<th>% of PHs with no access to credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>%</td>
<td>Poor borrowers</td>
</tr>
<tr>
<td>VBARD</td>
<td>4,000,000</td>
<td>33</td>
<td>800,000</td>
</tr>
<tr>
<td>VBP</td>
<td>2,500,000</td>
<td>18</td>
<td>2,000,000</td>
</tr>
<tr>
<td>PCFs</td>
<td>600,000</td>
<td>5</td>
<td>300,000</td>
</tr>
<tr>
<td>RSHBs</td>
<td>10,000</td>
<td>0.1</td>
<td>. .</td>
</tr>
<tr>
<td>Semi-formal</td>
<td>150,000</td>
<td>1</td>
<td>150,000</td>
</tr>
<tr>
<td>Total</td>
<td>7,260,000</td>
<td>60</td>
<td>3,250,000</td>
</tr>
</tbody>
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Source: Dao Van Hung, 2000
practices work in Vietnam. These institutions always charge interest rates up to 30-50 percent higher than that of the VBARD. However, the scale of programs is usually small.

In 2000, there were approximately 5.4 million rural poor households in Vietnam. The formal financial sector served an estimated 61 percent of them (about 3.25 million poor households); the semi-formal sector serves three percent, and the remaining 36 percent have no choice other than informal private credit sources (see Table 1).

**Formal Rural Financial Institutions**

**Vietnam Bank for Agriculture & Rural Development (VBARD)**

VBARD is foremost in the formal rural financial service sector. It provides over 75 percent of the credit extended by formal financial institutions to rural households. The VBARD branch network generally extends to the district level, but goes to the commune level in highly populated areas. In the past few years, VBARD has introduced a number of innovations to extend its outreach.

In 1995, VBARD started a program of poverty-oriented lending, drawing from the government’s Preferential Credit Fund. At the end of 1995, the fund was transferred to VBP. However, VBARD still lends to poor households. In 2000, roughly four million households accounting for 30 to 40 percent of rural households accessed VBARD loans (20 percent of these are poor households). The Joint Liability Groups system (JLG) is used to facilitate the management of loans. VBARD also works with social organizations, especially the Women’s Union and the Farmers’ Union, to establish credit groups similar to the JLGs. In addition, the bank works directly with the commune’s HEPR steering committee to form JLGs. To date, VBARD has been the largest provider of financial services to rural areas and the second largest provider to poor households.

VBARD is the obvious candidate for outreach development to poor households. In the last three years VBARD has added about 300 new inter-commune branches to its system in an effort to access grassroots communities. The introduction of a collateral waiver for loans under 10 million VND points to an awareness of the needs of poor households. A very clear indicator is the shift from an 80 percent portfolio of loans to SOEs (1992) to only 29 percent (2000). Efforts to minimize the cost of lending to the poor have been pursued through practices such as group lending and interfacing outreach activities with social organizations.

In addition to the body of evidence highlighting VBARD’s position as
According to senior management, VBARD has a firm plan to increase its service outlets to 2,000 and to increase its clientele. VBARD is too big to fail and too important to the rural economy. It benefits from many privileges and hidden subsidies from the government. Under the proposed banking reform plan, VBARD will undergo fundamental restructuring and will be forced to adopt more commercial practices.

**Vietnam Bank for the Poor (VBP)**

VBP was established in 1995. Its major responsibility is to provide loans to poor households and promote poverty alleviation programs. The VBP is institutionally “merged” with VBARD. Except for the headquarters, it has no separate staff and relies entirely on the VBARD branch network to carry out its functions. By late 2000, it has provided credit to approximately 2 million rural poor households (40 percent of the total number of poor household borrowers). Since its establishment, VBP has been the largest provider of financial services to rural poor households in Vietnam.

**People’s Credit Funds (PCFs)**

People’s Credit Funds (PCFs) were established as commune-based savings and credit cooperatives. The PCF model operates under the Cooperative Law. PCFs are made up of members who participate in the scheme by purchasing low-value shares at 50,000 VND (US $3.5).

The PCF network is comprised of one Central Credit Fund (CCF), 21 Regional Credit Fund (RCFs), and 961 PCFs operating in 53 of 61 provinces throughout the country. The PCF network covers over 1000 communes—11 percent of the total communes in the country. The PCF network currently provides five percent of the outstanding credit in the formal rural financial sector and covers 6% of the rural households, of which 5% are poor. The loan repayment rate throughout the system has remained high (above 96%). The savings mobilization capacity of the PCF system has substantially improved since its inception.

The modus operandi of the PCFs is to mobilize people’s capital and in turn lend it to other members. Lending and deposit procedures are simple and appropriate to the low education level of the rural population. Moreover, the diversification of credit and savings products has brought about a wide range of options to households with different levels of income. PCFs operate at a more grassroots level than VBARD. PCFs perform
an active financial intermediary function, improve access of rural borrowers and savers to financial services, and emphasize savings and credit discipline. Local people welcome the PCFs.

Many PCF members have escaped poverty and graduated to larger loans, hoping to improve their income. PCFs also grant loans for consumption like education, health care, weddings and funerals. They have outperformed other rural financial institutions in the areas of social work and community development.

PCFs are considered highly sustainable and have sound banking practices. They operate in a relatively solid and enabling policy framework in which government support is clear. However, the government has adopted a very prudent approach towards PCFs, trying to make them truly viable financial service providers in rural areas. This explains the current “snail’s pace” progress in the development of the network. However, there is no doubt that PCFs will have a bright future.

**Rural Shareholding Banks (RSHBs)**

In 2000, there were some 19 rural shareholding banks in Vietnam. Most RSHBs were the outcome of the reorganization or merger of rural credit cooperatives. Only some RSHBs have lent to the poor and these were through the Women’s Unions. The Union organizes women into groups to enable them to obtain loans from RSHBs. These banks are very cautious about expanding their lending to the poor.

**Semi-formal Rural Financial Sector**

_Social organizations_ are quasi-governmental bodies that retain close links to the government and are usually represented at four administrative levels: national, provincial, district and commune. This hierarchical structure enables them to interact from senior levels of government all the way down to the grassroots level. Many organizations such as the Vietnam Women’s Union (VWU), Vietnam Farmers’ Union (VFU) and Veterans Association assist in the disbursement of loans under specific government programs.

In a saving and credit project, the prime interest of a social organization is the economic improvement of its members. Credit not only serves this interest but also acts as a catalyst in support of other activities. Social organizations either own and manage members’ savings and grants from donors such as international NGOs, or they serve as facilitators for the VBARD and VBP.
The credit service offered by social organizations is highly appreciated for various reasons: (i) it can be channeled directly to targeted beneficiaries at the grassroots level, especially low-income households, poor women, or minority groups; (ii) it is community-based, so it has more direct and closer contact with rural customers than a formal credit institution; (iii) social organizations often make small loans more efficiently and have higher repayment rates to mobilize local savings with flexible and simple savings schemes; (iv) it improves grassroots participation in social activities and ensures that people’s voices are heard.

*International non-governmental organization (INGOs) savings and credit schemes* encompass 60 projects. Total loan funds amount to US $2.1 million, reaching more than 67,000 people. The variety of INGO schemes is reflected in their diverse objectives. Some are exclusively concerned with savings and credit. For others, savings and credit activities are an entry point to communities to promote programs on health or family planning. The savings and credit programs of INGOs in Vietnam are effective at providing financial services to the poor. High loan repayment rates are reported and successes have been achieved in savings mobilization. However, these schemes are considered small in scope and not sustainable in the long term as they rely on donor funds to cover costs.

**Informal Microfinance**

Despite the great efforts to improve credit provision to rural areas, the formal financial sector cannot fully meet rural households’ demands for loans, leaving a large berth for the informal credit market to operate. Private moneylenders dominate the provision of capital to rural areas. Loans from informal sources (e.g. moneylenders, relatives and other private individuals) represent at least 50 percent of total loans. It is believed, however, that many households borrowing from the formal sector also borrow from the informal sector so that, in reality, the informal sector could represent as much as 70 percent of total loans. Moneylenders charge interest rates of three to 10 percent a month—much higher than those charged by formal financial institutions.

**Policy Governing Microfinance Development**

**Policy Environment**

Since 1986, the Government of Vietnam (GOV) has set forth and pursued a national poverty alleviation strategy. This strategy has emphasized the technological and financial promotion of production activities.
Microfinance is a key resource for the poor to develop better livelihoods. Better access to savings facilities through effective microfinance savings and lending institutions would better enable the poor to accumulate savings for future investments and provide a valuable cushion against seasonal production shortages and/or unforeseen crises.

Numerous government programs have been launched for rural development and poverty reduction. The most recent is Program 135, which aims at the most vulnerable and poorest villages in the country. In June 2000, the Ministry of Agriculture and Rural Development (MARD) made the building of a commodities-based agriculture system a major goal for the sector in coming years. According to MARD, once Vietnamese agriculture moves out of the consumption phase to growing more crops for sale, the country can move forward to alleviate poverty, improve farmers’ living standards, develop infrastructure facilities, promote the industrial sector, and ensure food security.

Legal Framework
Vietnam is making considerable progress in building a “rule of law” economy. The National Assembly has recently passed and modified a number of laws which have a considerable impact on the operation of the financial markets. Two key laws have been passed in the banking sector: The Law on the State Bank of Vietnam and the Law on Credit Institutions. The Civil Code and Cooperative Law also have significant influence on rural banking and credit activities. However, there is no firm legal framework for the microfinance services of semi-formal institutions operated by international and domestic NGOs. The microfinance programs cooperate with and are supported by local authorities (People’s Committees), social organizations (WU and FA) and formal financial institutions (VBARD, VBP and PCF).

Civil Code
Passed by the National Assembly on November 9th, 1995, the Civil Code covers most of the civil relations involved in private lending activities. The Code confirms that: (i) private credit markets are recognized by administration agencies; the courts have the power to judge civil borrowing contracts; and (ii) the interests of both lenders and borrowers are protected. However, private lenders rarely resort to the courts for dispute settlements since the Civil Code is not well understood in rural areas. It is also time-consuming and costly to go to court. Microfinance schemes in rural areas emphasize dialogue to solve disputes in loan contracts.
Law on State Bank of Vietnam (Central Bank)

The Law came into effect in October 1998, strengthening the role of SBV as the central bank. The Law confirms that SBV intervenes in the financial market with indirect instruments, participates in the elaboration of monetary policies and monitors the implementation of these policies. It also entrusts SBV with the development of financial institutions. SBV’s control over interest rates directly affects the lending and saving rates of formal financial institutions. Its requirement of compulsory reserves affects the cost of operations of the formal financial institutions and influences the extension of credit, especially credit to the poor.

Law on Credit Institutions

The Law on Credit Institutions came into effect on October 1, 1998. The Law governs the operations of credit institutions such as banks, financial companies and non-bank organizations. The Law covers not only the operations of formal credit institutions but banking activities of all informal ones as well. Therefore, informal credit programs and even international NGOs must comply with its conditions. At present, they are governed by the Civil Code.

One article of the Law emphasizes the importance of credit to agriculture, rural areas and farmers. Under this article, financial institutions are encouraged to increase their lending to rural areas on a commercial basis, while the State will have its own preferential subsidized loan programs for rural areas.

Law on Cooperatives

The Law was approved by the National Assembly on March 20th, 1996, and constitutes the legal framework for the entire cooperative movement, including entities in the financial sector. Any organization accepting to be governed by the Law can register as a cooperative. As a legal entity, a cooperative’s benefits include: (i) being entitled to enter legal business contracts with other institutions; (ii) the right to open an independent account at formal banks; (iii) the ability to borrow from formal credit institutions; and (iv) a voice in decision and policy making.

Coordination between credit cooperatives and VBARD will facilitate the expansion of rural credit services. Registration as a cooperative gives legal status to existing rural small credit schemes currently managed by local social organizations and supported by international NGOs. This status gives them credibility and enables them to more readily forge a legal linkage with formal credit institutions.
**Vietnam Bank for the Poor (VBP)**

VBP targets poor households with a monthly income per capita of less than 15 kg of rice (about VND 75,000 per person per month or US $5). To be eligible to receive credit, a Poverty Alleviation Committee at the district and community levels first screens the poor using criteria set by the Ministry of Labor, Invalids and Social Affairs (MOLISA).

The Board is presided by a Deputy Governor of SBV and includes representatives of the Ministry of Planning and Investment, the Ministry of Finance, MOLISA, MARD, the Government Cabinet Office, Ethnic Minorities and Mountainous Committee, VBARD, Vietcombank, VWU and the Farmers’ Union. There is a standing board of management comprised of five members. Apart from the General Director who is a full time employee, all other head office and branch staff are employed by VBARD, which receives a fee for administering VBP’s loan portfolio as well as for the general administration of the VBP.

VBP reaches targeted borrowers using VBARD staff at the district and community levels. VBARD offices disburse and recover loans. After deducting its fee plus loan loss, VBARD pays back the balance to the VBP. Capital resources come from government loans allocated to the provinces, based on the poverty rate of each province.

VBP’s maximum loan size is VND 3 million (US $165) for a maximum term of 36 months and for production purposes only. VBP delivers credit directly to the poor, collects interest monthly and principal at maturity.

VBP does not have its own network in the country. Its headquarters are in Hanoi and it has representative offices in provinces and districts. VBP uses the available network, facilities and staff of VBARD to execute its functions. In practice, VBP has been “merged” with VBARD in terms of its operations. At provincial and district levels, the deputy director of VBARD also holds the position of director of VBP.

**Targeting**

VBP targets poor households using criteria set out by the government. To get a loan from VBP, a borrower must be listed as a poor household with average income lower than US$ 5 to 7 per month per person. At present, in some provinces, a ‘poverty book’ is issued to poor households. These households: (i) can borrow from VBP; (ii) can be exempted from tuition fees if their children go to school; and (iii) can be exempted from hospital fees if they visit district and commune healthcare centers. Issuing the poverty book has led to a situation in which many households, unless they have been granted land use certificates, cannot borrow from VBP and also cannot borrow from VBARD, as they do not have the assets necessary for loan collateral.
Normally, local committees nominate a list of borrowers to the microfinance institutions; VBP also makes loans to households who are nominated by credit and saving groups. However, if the definition of “poor” is not clear, some better-off households—even the rich—may benefit from subsidized credit rather than the poor. Some studies reveal that the poorest households do not generally access subsidized VBP credit. This may be due partly to self-exclusion (i.e. fears of indebtedness), but it also reflects the restricted outreach and limited range of products offered by formal institutions. For the poor who do gain access to VBP loans, there is only one product to choose: a three-year subsidized production loan.

**Financial Resources**

Most resources come from government domestic commercial banks or foreign banks, there is very little mobilization of savings. Up to 72 percent of total funds in 2000 came from those two sources. The total assets of VBP have been expanding rapidly since 1996, from 1.962 billion VND (US $135.3 million) to 5015.2 billion VND (US $345 million) in 2000.

Mobilization of savings through deposits accounted for only 0.2 percent of total capital in 2000. VBP’s ability to mobilize savings is constrained by the fact that (i) VBP does not have its own branch network and is not involved in any savings activity; (ii) the low lending interest of 0.7 percent per month makes it difficult for VBP to raise funds in a free market when the current savings rate for a three-month fixed-rate deposit is 0.6-0.65 percent per month; (iii) VBP has no field staff assigned to promote savings. (iv) the lack of medium and long-term savings instruments is a problem; (v) VBP is making no effort to mobilize small savings, due to the perception that poor households cannot save, (vi) operating costs are high and VBP is not willing to raise savings from poor households.

These aspects trigger and nourish a dependency among bank management on subsidized credit from the central government.

Depending entirely on capital allocation from the State’s budget, VBP cannot satisfy the demands of the poor for medium- and long-term loans. According to studies in several countries as well as in Vietnam, a poor person’s situation improves only after he/she has been provided with loans for five or six production cycles and has put aside some savings. At present, because of the lack of capital, VBP usually lends for only one cycle to poor households.

**Restrictions on loan use and loan portfolios**

Formal credit institutions, including the VBP concentrate on the provision of loans for production purposes, especially agricultural production; lending for consumption is left to the informal financial sector.
There are two reasons for concentrating on production: The first is to directly facilitate development of the local economy; the second is to reduce operating costs by simplifying administrative procedures. However, this excludes a great volume of credit demand for consumption. Supervision to make sure that loans are used for economic activities also results in higher operating costs and the fungibility of money makes this strategy ineffective in any case.

The restriction of loan uses for production creates a problem for poor households. Because of unstable income and relatively small savings, poor households’ budgets usually fall into deficit in the months before harvest. In such circumstances, the poor might have to acquire loans in informal credit markets, in many cases at usurious interest rates.

Thus, the VBP does not respond to the needs of poor farm households because it does not have a comprehensive loan portfolio. However, a comprehensive loan portfolio would require substantially more resources than are currently available.

**Repayment**

According to a 2000 VBP report, the delinquency rate for total outstanding loans was low, at 1.49 percent. The delinquency rate for total outstanding loans was 1.8 percent in 1997 and 1.7 percent in 2000. This low rate is essentially due to the government writing off bad loans from of the bank’s balance sheet. According to the report of VBP branches in some provinces, the repayment rate in 2000 was 60 percent, for the following reasons:

1. VBP’s practice of collecting interest every month and the principal at maturity puts poor households in difficulties at the end of the loan. Lessons learned in previous credit and savings schemes for the poor in other countries suggests that installment repayment is more appropriate than lump-sum principal repayment (e.g. *Microfinance in Vietnam*, UNDP, 1996).

2. There is still a concept among poor borrowers that loans are subsidies by the government and thus do not need repayment.

3. The VBP does not have its own staff; collection is done by VBRAD staff who are overworked and have no time to supervise loans.

**Subsidized Loans**

The Credit Institutions Law includes provisions to grant subsidized loans to agriculture, rural areas, farmers, mountainous areas and underprivileged areas. Because loans are made at rates much lower than
market rates savings mobilization is impossible, putting its long-term viability in question. VBP relies entirely on government funds to finance its loan portfolio.

The high transaction costs incurred by VBP hinders outreach to poor households. According to one report, the number of clients has been increasing remarkably year after year, but medium-size and large loans are going mainly to better off households. VBP is not responding to the large demand for small loans for poor rural households because of associated high transaction costs. Moreover, subsidized interest rates on loans resulted in low interest rates on deposits, which restricts the capacity of VBP to mobilize savings among poor households.

Donors and NGOs have questioned the appropriateness of subsidized credit. Under the current interest rate and cost structure, VPB is not considered a viable financial institution; it has not achieved financial self-sufficiency, nor has it met its social welfare objectives.

Restrictions to Borrowers and Gender Issues

From a grassroots perspective there are barriers that restrict the access of poor households to VBP microfinance:

- lack of familiarity with banks and their services; the level of education of rural households is low; many household heads are illiterate.

- the distance to banking facilities can be considerable.

- products offered are often not appropriate to poor households’ needs.

There is no legal bias against women borrowers in Vietnam. In fact, many banks consider women less risky than men, especially for small loans. Due to the lack of gender desegregated data in VBP and the lack of government gender-focused policies, evaluating women’s access to formal financial institutions is difficult. However, in a VBP credit officers’ opinion, loans granted to female-headed households accounted for 50 percent of the total portfolio as of December 2000.

Gender is not a criterion for bank loans, but it is more difficult for those who are not heads of households, or who lack collateral, to secure loans. Officially, there is no gender discrimination when borrowing from government banks. The reality is that due to the lack of qualifications, illiteracy, information shortage and geographical separation, poor and illiterate women are not aware of all credit facilities available to them. They find bank procedures complicated and loan approval a time-consuming process.
Contributions of VBP to Poverty Reduction

The proportion of people with per capita expenditure below the total poverty line dropped dramatically from 58% in 1993 to 37% in 1998. The number of people below the “food poverty line”, also declined from 25 percent to 15 percent, indicating that the poorest segment of the population also experienced an improvement in their living standards during the period between 1993 to 1998. While it is quite evident that VBP, through creating employment opportunities and increasing income, has contributed positively to improve the living standards of participating members, it is difficult to ascertain the precise contribution of VBP to poverty reduction.

While the transition to a market economy is improving the lives of many, it is also creating a poor underclass, especially poor farmers. For the rural poor, vulnerability to shocks were previously mitigated by the State cooperative system. Now their vulnerability is compounded by lack of access to financial resources and services from formal financial institutions.

Constraints to Improving Operations

These are the main constraints facing VBP in expanding its operations:

- The government has not issued specific policies on microfinance operations. Continued provision of subsidized credit through VBP undermines efforts made by international NGOs and other social organizations to introduce savings and credit schemes to promote a microfinance system in accordance with best international practices.

- In expanding financial services to the poor, VBP will have to resolve the issue of whether it will continue to depend on government subsidies and VBARD staff, or whether it will seek to establish its own institutional viability through savings mobilization and more commercially-sustainable interest rates. Difficulties could arise over the high cost of operations in poor districts, especially in the mountainous areas where the local savings capacity is very limited but there is the greatest need for credit.

- VBP lacks an effective long-term strategy for cooperating with civil organizations in the delivery of credit and savings services to the poor. This is giving rise to situations where the organizational strengths of civil organizations are not being utilized by VBP.

- VBARD/VBP’s commitment to reach poor households has generally been weak due to the fact that management and credit officers are not
convinced that the poor can save even a small sum of money. This is
aggravated by the lack of incentives for credit officers working for VBP.
Surprisingly, the number of customers managed by a credit officer is
not considered a criterion for evaluation. Credit officers, therefore,
prefer large loans rather than increasing the number of small loans in
their portfolio.

Installment Payment
Credit institutions should encourage borrowers to repay in regular in-
stallments rather than the present lump sum final payment practiced by
the VBP. Incentive mechanisms for accelerated repayment should also be
incorporated. Experience in lending practices in poor regional counties
shows that repayment using an installment schedule is usually very high
(over 95 percent).

Conclusions
The institutional structure has improved quickly. Suppliers of micro fi-
nance services have increased in number. However, the informal financial
sector still makes up a large share of the credit market and poor house-
holds have to rely on informal sources rather than on formal ones to meet
their credit demand. As a result of changes in government policies, the
formal financial sector has expanded considerably. VBP has become the
largest supplier to poor households in the rural financial market and the
PCFs are expanding their role in rural areas. In the semi-formal financial
sector, microfinance programs have been effective ways to channel credit
to the poor in remote and mountainous areas. These programs have de-
veloped with important assistance from INGOs.

Recent changes in the legal environment are paving the way for new
developments in the microfinance sector in Vietnam. However, it is evi-
dent that the country still lacks a firm legal framework for the develop-
ment of microfinance programs. Almost all credit and saving schemes
funded by the international community fail to meet the criteria to be-
come legal entities. Therefore, it is necessary to make further improve-
ments in the legal framework to support the institutional sustainability of
microfinance schemes.

VBP’s extended outreach has certainly made a significant contribu-
tion to hunger eradication and poverty reduction in Vietnam. However,
because of the lack of extensive networks and human resources, as well as
government policy to subsidize credit, VBP has not been able to achieve
financial sustainability. VBP should be reorganized to become self-sus-
tainable in order to ensure long-term credit provision to the poor. The government also needs to relax its interest rate policy and create an enabling environment for microfinance institutions to decide their own level of outreach and trade-off between risk and return.

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PART 4

Regional Development Institutions and Poverty Reduction: Strategic Directions and New Challenges
CHAPTER 16

Options for investment in the rural economy

By Rubén Echeverría*

The dramatic situation of rural poverty

Even though the majority of the total population and the population living in poverty in Latin America and the Caribbean is located in urban centers, in relative terms, poverty is a rural phenomenon in the region. More than half of rural households live in poverty and a third are in extreme poverty. The fight against rural poverty is a great challenge. Although there have been great advances in reforms, there is still relatively little economic growth and much income inequality in the region.

The incidence of rural poverty in many countries of Latin America and the Caribbean constitutes a major social and political challenge, with ramifications such as rural violence, production and marketing of illicit crops, and insecure land tenancy. Rural poverty, in most of the region, has diminished very slightly during the 1990s. Between 1994 and 1997, the percentage of rural poverty fell from 56 percent to 54 percent, and rural indigence fell from 34 percent to 31 percent, figures that are similar to those in the 1980s.

Since the beginning of the 1990s, for the first time, the urban poor (mainly women heads of household, parents with little or no formal education and young people without jobs) have outnumbered the rural poor (an estimated 126 million people vs. close to 78 million people in 1997). However, there were more rural households living in extreme poverty (47 million) than urban ones (43 million). It is important to note that some of the increasing number of urban poor is explained by migration from rural areas. Furthermore, the economic conditions of many of the region’s countries during the last few years have possibly worsened rural poverty. There are few convincing results in the fight against rural poverty; and the relative relief achieved in some cases has had much more to do with higher migration than with a reduction in the gap between living conditions in rural and urban areas.

Most of the rural poor are small producers (approximately half of the total, or 40 million), while the landless rural population and indigenous

* At the time of writing, Dr. Rubén Echeverría was a Senior Advisor for the Rural Development, Sustainable Development Department at the Inter-American Development Bank.
groups represent 16 percent and 33 percent respectively, of the entire population (IFAD 2000). According to various estimates, approximately one third of small growers living in poverty cultivate small plots of land and have limited opportunities to solve their problems by farming. This means that more than 40 percent of the rural poor have no access, or limited access to productive resources that would allow them to generate adequate income through their own agricultural production. This situation, in the absence of an unlikely massive redistribution of land, worsens when the number of rural poor, with little potential for making a living from farming, increase faster than the number of those with access to adequate resources. Relative exclusion from the market, and subsistence production as a mode of survival for these sectors, imply a future with little opportunity to overcome poverty.

In general, the rural poor have scarce opportunities for productive employment, insufficient nutrition, poor health, lack of educational services, and levels of organization that are insufficient to effectively defend their own interests. In the case of the region’s most urbanized countries, the process of migration to cities has begun to decline, while in many other countries, where rural populations represent more than 25 percent of the total population, there are still high rates of migration. Non-agricultural income is an increasingly significant percentage of total rural income, close to 50 percent in many of the region’s countries. It is especially important to note that poverty is often combined with ethnic contexts, older families and households headed by women. Approximately 80 percent of the region’s indigenous population live in poverty (IFAD 2000). In many cases, indigenous communities subsist on the region’s most fragile land, in isolated areas with little agricultural potential and with few options for non-agricultural work. They often live near—in many cases, within—protected areas. Emigration towards urban areas remains the principal factor for rural poverty alleviation, which besides having a limited effect on overall poverty imperils the cultural and social heritage of these communities.

There are at least five possibilities (with different combinations) to reduce rural poverty (Echeverría 2000). Agriculture and rural non-farm economic activities are the most important. Sustainable use and conservation of natural resources, linked with rural poverty reduction, is also important. Migration to urban areas has been the traditional way to reduce rural poverty. Finally, increased assistance can be provided to those who need income transfers to rise above the poverty threshold or to have minimally acceptable access to social security nets.
The potential of the food and agricultural sector

In rural areas, the food and agriculture sector (agriculture, livestock, forestry, fisheries and agro-industry) has special importance, whether directly or indirectly, since the sector represents more than 25 percent of the gross regional product and more than 40 percent of exports, with even substantially higher figures in some countries, including Argentina, Colombia, Costa Rica, Haiti, Guyana, Nicaragua and Paraguay (IDB 2000). Agricultural employment directly accounts for more than half of rural income in the region and more still when linkages with inputs and products are included.

The process of economic reforms, along with the globalization of world markets, has provided new dynamism for the region’s integration in the world economy. There have been changes in food production and new international trade opportunities for products. In this sense, the 1990s mark a sharp change from the old paradigm of protected agriculture within a closed economy—limited to primary production, with excessive intervention by the State and with precarious links between economic agents—to a sector more articulated with macroeconomic policy, more focused on competitive advantage, and with collateral services integrated vertically and regionally.

This progress toward greater competitiveness translates into growing efforts to increase productivity and quality while reducing costs. Increased scales of production (particularly in grains, meat, fruits, oilseeds and sugar) and a simultaneous process of mechanization and automation affects rural employment patterns and land markets, as can be seen today in the MERCOSUR countries and northern Mexico. To the extent that there is political stability and a favorable macroeconomic outlook, the relatively low land and labor prices, along with expanding integrated markets, attract private investment and bring in multinational agribusiness, providing incentives for the concentration/diversification of trade and the agro-industry. This process of change has been accompanied in many cases (Brazil, Argentina, Mexico, Chile) by joint ventures with local investors in both agricultural and non-agricultural areas, as well as by mergers and consolidation among domestic firms.

As a result of these changes, some regions are beginning to have more technically advanced agriculture, more articulated with agro-industry and more oriented to the international market. These changes are

1 Due to the high transaction costs in the rural markets for basic goods, it is essential to promote the integration of the small farmer/producer in the domestic markets and to reduce interventions so that rural markets work better (Figueroa 1998). This is especially critical for non-traditional export products. (Damiani 2000).
necessary if greater specialization in production and greater economic efficiency are to be achieved. At the same time, the very significant incidence of urban and rural poverty and the fragility of some ecosystems make it essential to focus on opportunities to increase the competitiveness of the food and agriculture sector in the region within a framework of equity and sustainability.

Lessons learned

○ The magnitude, complexity and persistence of rural poverty in the region have not been approached with broad-based strategies, and they have not been addressed with sufficient and continuous allocations of resources (Aristizábal et al. 1992). In general, many projects are isolated and discontinuous, with little relation to national strategies. The rural poor do not generally have the power to negotiate, nor are they the favorite clientele of governments and funding agencies. This translates into an absence of committed personnel prepared to carry out these programs and little analysis of the economic, social, and cultural contexts in which interventions take place.

○ Economic growth is a necessary but not sufficient condition for the reduction of poverty. Hence, targeted interventions are required, especially given the existence of great inequality and low educational levels widely present in rural areas. The growth of the economy has mitigated rural poverty essentially through migration, a sign where part of the solution is outside agriculture, but, in the future, not necessarily outside of rural areas.

○ The development of the food and agriculture sector is necessary for economic growth and for rural and urban poverty reduction. In most of the region’s countries, the agricultural sector (including linkages with markets for inputs and products) continues to be a substantial portion of the economy and is an important source of revenue for large segments of the population, especially the rural poor. However, history shows that the development of commercial agriculture alone will not generate benefits sufficient to reduce rural poverty significantly.

○ Those countries which implemented economic policies with strong negative biases toward the rural areas were not successful in modernizing their economies, even in cases where partial subsidies were used to correct the biases introduced through relative prices. There must be an
economic and institutional context that promotes access to productive resources by large segments of the population along with productive investment, technological innovation and sustainable resource management. The development of the rural economy requires an economic context that assures the profitability of private enterprise within a stable, long-term framework, generating agricultural and non-agricultural jobs in rural areas and promoting the investment needed to develop basic production-related infrastructure and to increase the quality of life in rural areas.

- **An active process of productive investment, development of infrastructure and adoption of technologies must accompany trade liberalization, in order to ensure greater economic efficiency and a higher level of well-being for the rural population.** The very significant deterioration in the terms of trade for farm products suffered by many Latin American countries has had negative effects on the sector’s profitability and on its capacity for investment and modernization. This process was, in part, a result of the low level of integration of primary production with industry, which prevented market niches from being taken advantage of and reduced the ability of the sector to negotiate in international markets. Other factors were the real fall in exchange rates during the process of liberalization and the low productivity and high production costs resulting from the low level of investment in technology. Hence, it is essential to invest in competitive advantages by investing in technological innovation and avoiding the trap of being limited to the production of primary goods. The modernization of farm production processes initiated in many countries, as a result of economic liberalization, may temporarily require measures of direct support, as well as simultaneous technological assistance and institutional arrangements that emphasize new products, new forms of markets and articulation with agro-industry.

- **Rural development programs have been relatively inefficient when not accompanied by economic policy that, on the one hand, permitted farm production to be profitable while facilitating access to productive resources for small producers with agricultural potential, and on the other, promoted non-agricultural rural activities.** Rural development policies have coexisted with—or have been an attempt to counterbalance—simultaneous contradictory macroeconomic and sectoral

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2 Distorted international commodity markets due to substantial farm support programs in the more developed countries have also contributed to lower prices of key products.
policies that tend to cancel out the effects of the development policies (e.g., food import substitution policy, excessively high exchange rates, commodities price controls, and high interest rates).

- The low level of participation of the beneficiaries of rural development projects has led to components not responsive to demand, inappropriate interventions in terms of the pace of absorption in the communities and initiatives that lack sustainability. The lack of a gender perspective in rural development programs, as well as the loss of the potential contribution of women, young and indigenous people in rural areas, has often meant their exclusion and marginalization, notably reducing development in rural communities. The diversity of the rural population, changes in the economic environment and the learning curve for the various players involved in the development of projects have all been at odds with the traditional rigidity of the development/execution of the project cycle. In many cases, the multiplicity of components, centralization of decision-making and weakness of regional and municipal intermediary institutions have affected project execution.

The need for a new paradigm
Generally speaking, there is an acknowledged need to move toward a new regional consensus that will make it possible to improve rural policy orientations, especially considering that the results of 15 years of adjustments are precarious in terms of low growth rates, persistent high levels of poverty, worsening income distribution, and the declining profitability of some crops. This shows a certain imbalance between the current consensus on the situation and actual policy. There is also agreement that to achieve satisfactory results in reducing poverty, macroeconomic policy must be complemented by social strategies that produce structural changes in the development of human capital and the quality of life of the rural population.

The definition of priorities in the new context of production reconversion (new product lines and expansion to agro-industry and non-agricultural sectors) would be based on market orientation, changes in consumer preferences, greater integration of food and agriculture processes, the importance of new areas such as chemicals and pharmaceuticals, biotechnology and environmental issues. In this context, sectoral policy should encourage conditions in which private decisions can improve access to new product lines, guaranteeing a management and decision-making process based on quality of information and ensuring greater decision-making autonomy, including aspects of risk and creativity.
Two central factors in formulating social policy for the rural sector are job creation through value added and attracting private investment. There is consensus that market liberalization offers opportunities for more efficient and competitive production arrangements based on economies of scale, integration, specialization and differentiation of products, marketing to markets with special emphasis on quality and economies of product clusters and market niches. However, while markets will contribute to greater efficiency and equity, they are not sufficient to meet the broad-ranging needs of rural society. Hence, specific interventions must provide greater opportunity for a greater number of economic agents, if a true transformation of production is to occur. Of special importance is the situation of thousands of small growers whom, for lack of alternatives, produce illicit crops with the predictable legal, social and environmental consequences.

Privatization, budget adjustments to reduce the fiscal deficit and the dismantling of institutions makes it difficult to carry out rural development initiatives until civil society develops new institutions, especially at the local level. The reduction or withdrawal of the public sector has been felt sharply in areas such as social investment (education, health), the financial system and infrastructure. In these areas, there are fewer opportunities to meet the increasing demand for investment in human capital, financial services and communications to deal with the challenges of competitiveness faced by the rural poor.

The need for a new approach to the agro-industry sector also involves greater integration of phases of production. In the late 1980s, compared with countries where agriculture is more developed, regional agricultural production was relatively extensive in the primary production phase (i.e. low levels of capital and few industrial inputs per agricultural land unit—the use of fertilizers and agrochemicals was low compared with the rest of the world), while primary production was associated with a low level of industrial processing. These features began to change in the 1990s, especially in Brazil, Argentina and Colombia where agro-industry and the food industry have expanded, a process that was led largely by foreign investment, especially on the part of large transnational food companies. This trend will increase in the future because of international demand for more highly processed products in various market niches where the transnational firms are well positioned. There is a similar trend in domestic markets in Latin America and the Caribbean, where middle- and high-income urban sectors are demanding products with greater value added at an accelerating pace. In these markets, domestic production has faced growing competition...
from other countries’ products within regional integration agreements. Consequently, greater emphasis on rural investment and, especially, on the modernization of the agricultural sector will certainly facilitate increased commercial openness and regional integration.

**Priority areas for investment**

The priority investment areas described below constitute a basis for a new approach to the development of the rural economy that will contribute to economic growth and the sustainable use of natural resources, and will reduce both rural and urban poverty and improve the quality of life in rural areas. Keeping a territorial approach in mind, there will be an infinity of possible priority areas for rural development in each country, region, and locality. The areas where investments by the Bank and other development organizations could have substantial impact are briefly indicated below.

**Consolidation of reform programs in rural areas**

Public policies in rural areas must be strengthened to ensure consistency with macroeconomic measures and must promote legal reform and support the process of decentralization (e.g., by giving municipalities the ability to design their own development plans and attract private investment, both domestic and international). The consolidation of reform includes correcting anti-agricultural biases and financing social safety net programs for those who are not in a position to satisfy basic needs.

Though, the economic reforms undertaken by most of the region’s countries are generally quite advanced, they still need to be consolidated, their main tools refined and undesired effects corrected. Possible measures include:

1. Sectoral reconversion programs with temporary assistance for transition programs to contribute to production reengineering, plus compensatory measures for low-income producers and consumers impacted by policy reforms, including temporary transfer of income, food assistance and production support for small producers;

2. Development of new market instruments (e.g., financing of inventories, risk management and farm products exchanges); and

3. Support for private enterprise to channel private investment to the rural sector (agro-industry).
Modernization of the public sector and basic agricultural services

Changes in economic thinking in Latin America about reducing the role of the State and short-term needs in fiscal accounts have started a process of reform in the organization of the public sector. However, less effort has been dedicated to clearly define the State’s new role and to rethink the organizational structure best suited to the objectives in particular cases. The need to rethink public and private institutions and their organizational structure is particularly important in connection with rural activities. There is a need for a certain level of public intervention, especially in funding (in association with the private sector) and in regulating key activities such as technological innovation, environmental conservation, health and safety of food products, and provisions for infrastructure.

The public sector’s weakened institutional capacity will make it difficult to deal with the new challenges derived from the growing complexity of food and agriculture systems, especially since the technologies used and the ways of organizing production itself, are becoming more complex. This makes it increasingly difficult to deal with the sector’s problems in isolation, looking at each instrument or service separately from the others. The separations that still exist among the different organizations that provide public services must be overcome, and mechanisms must be sought to achieve greater horizontal articulation and integration of instruments and modes of action. In addition, from the point of view of policymaking, it is not enough to concentrate on primary production and the social problems of rural areas when responding to needs that derive from economic processes that are increasingly integrated. Policy-making must address the particulars and dynamics of the entire chain of agriculture/food activities and this means that it is indispensable, for example, for ministries of agriculture to act more broadly, bringing agro-industry and distribution into their purview—areas usually dealt with by scattered parts of the public sector.

The strengthening of management capabilities in the public sector could include:

1. Strengthening links with civil society, recognizing the growing importance of mechanisms with a non-State public mission, such as a number of rural organizations that reflect the demands of the rural population and provide services in the areas of information, education, technology transfer and social articulation;

2. Greater articulation with the private sector, supplementing funding via tax breaks for private sector production and activities by contract, tertiarization or accreditation;
Greater efficiency and effectiveness in public administration, focusing practices more on products than process, lifting administrative restrictions, developing management contracts and systems of rewards based on effective contribution;

Greater integration and coordination of activities with other sectors (environment, industry, trade, health, etc.);

Decentralization and distribution of public activity and shifting institutional focus and structures to the local level; and

Strengthening the capability to define policy and priorities.

Better administration requires a professional development and remuneration policy that makes it possible to attract and retain human resources of high quality, and a level of funding and organization compatible with an important mission that involves the following basic public services (Piñeiro et al. 1999):

Statistics, market information and promotion of exports. The public agricultural sector has a key role in collecting, processing, analyzing, and disseminating basic agricultural statistics (national censuses and rural household surveys) to satisfy minimum needs for public information and provide a basis for policy making. It is also important for the public sector to provide information on markets to make them more transparent and encourage competition. This includes technical support to improve negotiating capability in international trade agreements. Finally, there must be national programs to promote exports that involve value added to primary production through a processing industry that is based on farming activity and is responsive to new types of demand. This involves training for medium-sized firms and for producers’ organizations to help them to produce and export quality products.

A new context for technological innovation. Advances in biotechnology, computers and communications make for a new scientific and technological scenario that offers enormous potential in terms of forms of social organization and farm production processes. These changes also imply a transformation in the way of doing science and, hence, the institutional and organizational forms within which the process of technological creation and adaptation takes place. This is especially true when new economic players enter the process of innovation, and in connection with strengthening intellectual property rights to discoveries. The new opportunities provided by trade liberalization make it essential to accelerate the process of technological development to make increased production competitive and sustainable over the long term. Large-scale investment in
human resources training is needed to carry this process out successfully, as is redesigning technological development organizations, rethinking the roles of the actors that fund and execute technological development activities, establishing intellectual property rights systems, and providing technical assistance to take advantage of the technological innovations occurring in the rest of the world, both in the production area and institutionally.

At the national level, efforts in these areas could concentrate on the organizational adjustments and mechanisms necessary for funding national systems for innovation in accord with the new role of the State, the new priorities for technological development and the need to strengthen human resources and basic research infrastructure. At the regional level, given the high investment costs required to do research in new areas and the nature of current integration processes, strengthening cooperative programs for funding technological development is a priority.

Plant, animal health, and food safety practices. This is a priority area because of its social and economic implications and its strategic importance for promoting exports. Trade requirements involving food health and residues make it necessary to negotiate and adjust health and quarantine standards, and also to monitor them and ensure they are applied correctly. This area demands scientific objectivity and effective technical implementation, requiring an institutional system that links public and private sector action, following a number of general principles:

1. Definition of a clear health and trade policy and development of precise standards;
2. Decentralized organizational structure with a shared authority structure that provides for transparency in administrative action;
3. Updated standards for the careers of civil servants in this area (including standards governing hiring, training, stability of personnel, promotion and sanctions); and
4. Technical audit mechanisms to make it possible to closely monitor the existence of, adaptation of and compliance with standards.

Investments in this area could concentrate on the following areas:

1. Quarantine controls to prevent the introduction of exotic diseases;
2. Health- and trade-related quality standards with stronger health enforcement in the processing and marketing of products, systematizing and coordinating these activities at the federal, provincial and municipal levels in order to improve service and prevent overlapping functions;
promoting the adoption of *food safety practices* to supplement health services and assure market competitiveness and protect the health of the population;

4. eradicating diseases and pests through public-sector action to coordinate and facilitate private-sector action; and

5. reorganizing institutions and unifying animal health services with plant health services under a single organizational structure with greater operational decentralization and more interaction with users.

The public sector has an important role to play in establishing food safety systems with the participation of farmers, processors, marketers and consumers. These systems could include the following:

1. the idea of a continuous food safety chain all the way from the farm to the consumer;

2. an internationally harmonized regulatory framework of laws, rules, standards, guidelines, monitoring and inspection procedures, supervisory methods, and sanctions;

3. appropriate technical infrastructure, including production, processing and monitoring technologies; and

4. educational and informational activities for consumers, producers, and regulators.

Given the coming process of trade liberalization and regional integration (Free Trade Agreement of the Americas—FTAA) and the characteristics of information and promotion technology and food safety practices, consideration should be given to what regional or sub-regional institutions are necessary for this process to develop effectively. If this happens, these institutions can add the needed scale to national efforts.

*Promotion of rural off-farm production activities*

Rural areas are populated by farmers and a varied social spectrum of seasonal workers, jobless people thrown out of agricultural work, workers indirectly linked via services to agricultural activities or employed by agro-industry, employees of social and municipal services, workers for firms in the areas of tourism, fishing and industrial parks, and pensioners who have returned from the city. This large grouping, which includes many poor people and many forms of poverty, inhabits the rural landscape and the semi-urban
border of agricultural towns and very small cities, where features of the two ways of life come together. In addition, there are those who work small plots of land and have little chance of emerging from poverty as farmers.

Given that a significant segment of the poor rural population has few options in agriculture, higher priority should be given to public investment and to the tax and financial incentives, needed to attract private investment in many areas: ecological tourism, restaurants, cabins, swimming, spas, cultural sites, commercial and sports fishing, agro-processing industries, and industrial parks (Berdegué chapter 6). At the same time, priority should be directed to promote small businesses where a family or family member manages the business trade, crafts, small manufacturing, furniture and woodworking, machinery service and repairs, etc. There is great potential in the rural environment to process natural materials into craft items and other articles, drawing, for example, on wood, medicinal plants, fibers, fruits, nuts, flowers, and deposits of stone. It should be noted that the decentralization and improvement of rural financial services mentioned above would no doubt be a great contribution to the development of small and micro-enterprises in the rural setting, especially if access to microcredit is increased.

Improvements in land access

Most of the region’s countries have managed, through natural processes of subdivision and land reconcentration, and in some cases through rural development and land reform programs, to improve the structure of land ownership and tenancy. It is important, however, to increase the security of rural land holdings and the efficiency of these markets by strengthening legal structures and modernizing systems of rural land records, titles and deeds in order to promote more transparent land markets. The titling and promotion of short-, medium- and long-term rural land leases facilitates the trade and sale of leased land-use rights and their use as collateral in banking. Consequently, it is crucial to broaden access to land, facilitating access for non-current farmers and small farmsteads, thus enabling greater use of the land in accord with its productive capacity (Echeverría 1998). This area of activity includes support for land purchases by small producers or to consolidate traditional land reform projects, as well as the possibility of taxing land in order to discourage unproductive holdings and decentralizing the administration of land taxes to local government agencies. It is also important to strengthen information and training systems, improving the collection, processing, and ongoing updating of information on land ownership and tenancy.
Development of rural financial markets

The development of capital and risk-management financial markets to facilitate medium- and long-term investment is essential for the process of diversification and modernization of the rural economy, especially for small farming to be transformed in response to new market conditions, as well as to encourage non-agricultural rural activities. Under the premise that competition between private financial intermediaries subject to the rigors of the market should drive efforts to reduce costs, bring new products to market and expand services, the introduction of reforms and economic stabilization was expected to lead to increased financial services. Though over the last 15 years the region has seen a number of new organizations (NGOs, savings and loan co-ops, and selected commercial banks) extend financial services to poor sectors of the population, however, their coverage in the rural world has been very limited (IDB 2000; Wenner and Proenza 2000).

It is essential to encourage reforms of the regulatory and institutional system to reduce transaction costs and the informal sector. Other areas requiring reform include support for emerging financial institutions, such as savings and loan co-ops, NGOs and rural banks dedicated to providing financial services to the rural world, the promotion of connections between formal and informal credit organizations, and the use of non-traditional technologies to implement systems of guarantees to provide wider coverage. Finally, reforms should be made to facilitate the penetration of private banking into the rural world. In managing to create reliable, sustainable, low-cost financial services for rural areas, it is important to encourage the emergence of microfinance institutions, mostly through small projects, technical assistance and sharing of experiences. These programs could do five things: First, facilitate the improvement of systems of financial supervision and regulation, which are currently an obstacle to small loans. Second, develop the regulatory and institutional framework that currently prevents the use of personal property as bank collateral—property such as inventory, machinery and equipment, accounts receivable—in order to reduce legal restrictions on repossessing this type of collateral in case of delinquency or failure to register for taxes. Third, develop capital markets through investment of risk capital in rural enterprises or in associations of small producers. Fourth, increase land titling and promote the creation of legal instruments to facilitate long-term land leasing and purchase as well as the sale and transfer of land-use rights. Fifth, support the development of agricultural financing through commercial credit provided by buyers, sellers and intermediaries, eliminating existing obstacles to greater competition and supporting economically viable measures to organize small producers.
Sustainable management of natural resources

The sustainable use of natural resources is one of the most important challenges facing the region’s rural areas. The success of this activity will depend on action within three sectors (institutions, policy and technology) as well as outside the sector (economic and political stability, education, transportation, communications), and will have profound implications for the region’s future. Attention should be taken of the lag in the design of institutions connected with environmental management in rural areas and their weak interaction with environmental units from other sectors. These features make it necessary to strengthen the development of institutions and instruments that stimulate processes of managing natural resources that take into account the external benefits and costs of natural resource use.

The pattern of agricultural development, followed by the majority of countries has had, in many cases, negative effects on the environment due to chemical pollution, salinization and erosion by water and wind. Poor agricultural practices and the devastating effect of burning and other farming activities detrimental to biodiversity and tropical forests are also important negative factors. An increasing connection between the environment and trade gives this issue new economic importance, especially for countries with large agricultural exports. To articulate a sustainable production strategy for the long term means dealing with very significant demands in terms of the institutional structure of the public sector, the development of a proper regulatory framework and the implementation of programs of public investment, especially in connection with technological development.

The deterioration of LAC’s natural resources constitutes a real opportunity to develop a double response to rural poverty and the recovery of the quality of watersheds, soil, water, flora and fauna, and landscape. This approach seeks to harmonize productive activity with the recovery and conservation of ecosystems. Agro-ecological intensification in farming, fisheries and forestry production must become a fundamental principal for seeking the optimum and sustainable use of natural resources, especially in view of the decreasing availability, in quantity and quality, of land and water in many of the region’s countries.

A great majority of the rural poor live in areas with little agricultural potential, including degraded, eroded or semi-desert areas (e.g., the Bolivian altiplano, the Brazilian Patanal), lands that are fragile or marginal because of their mountainous location, and wetlands. This population subsists on natural resources that provide water, food, energy and income. However, because of limits on the quality and quantity of these resources, they are forced to cross the threshold of sustainability and begin to destroy this
base. Compared with other regions of the world, Latin America and the Caribbean still have a great wealth of natural resources. Nevertheless, desertification, destruction of natural resources, climate changes, and loss of biodiversity are more present every day.

Breaking the vicious circle of deforestation, degradation of water and soil resources, that increase rural poverty and migration to the cities, constitutes one of the bases of a new rural strategy and is germane to various international agreements on climate, biodiversity and desertification. Breaking the vicious circle of poverty and deterioration of natural resources can become a virtuous circle for recovering natural resources and overcoming poverty, if support programs are designed with this in mind. Such measures could include long-term incentives for each land unit left unused in areas where resources have deteriorated and special financing for investment and reconversion of unutilized areas for reforestation, combined forest and grazing management, plant cover, and other soil recovery practices.

Finally, new demands in rural areas should be put high on the agenda. These go beyond food production and include: conservation of ecosystems; biodiversity; essential natural processes; conservation of natural landscapes of esthetic and biological importance to support recreational and alternative economic activities such as ecotourism; the production of high-quality water resources for domestic and industrial consumption; improved carbon dioxide processing and oxygen emissions; protection against floods; and the purification of polluted water and air. All of the above, which are demanded strongly by urban societies, should be valued and paid for by turning them into alternative sources of income for the rural population.

In short, to achieve sustainable management of natural resources, priorities must include:

- **Legal reforms** to preserve natural forests, conserve their biodiversity and potential for producing environmental services, encourage reforestation in commercial plantations on medium and large scales, achieve rational use of water resources and their decentralized management and facilitate equitable access and enforcement of regulatory standards.

- **Institutional reforms** to create, modernize and equip regulatory and administrative entities for natural resource management.

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3. It should be noted that the relation between poverty and degradation of natural resources in a given place depends on the level, distribution, and type of poverty, as well as on the type of environmental problem involved, so that recommendations should be based on the specifics of each case.
○ *Integrated management of watersheds*, including sustainable use of natural resources and participation by the rural community. This requires participatory planning by the community, including training programs, development of family-based production and non-agricultural activities, exploitation of wild flora and fauna, fish farming and natural fisheries, and the creation of incentives for activities that promote sustainable management of resources (e.g., management of natural forests, reforestation and promotion of soil conservation practices).

○ *Creation and dissemination of multicropping practices* to increase yields without degrading soil and water resources, promotion of proper growing and reforestation practices in high areas of water basins, creation of jobs linked to soil conservation (e.g., zero cultivation, use of residues) and the introduction of better growing practices to reduce soil and water contamination caused by pesticides and chemicals.

○ *Development of small irrigation products or projects to rehabilitate irrigation systems for private users*, including granting water rights to users and associations of users to stimulate private investment in projects that make more effective use of water.

○ *Design of instruments to compensate growers for the environmental services* their practices provide, since in many cases the private benefits of such practices are limited (e.g., conservation of forests for carbon dioxide processing and regulation of the hydrological cycle).

○ *Strengthening the role of protected areas as a key element in rural development and in sustainable resource use*, focusing on the consolidation of current national systems of protected areas, participation by rural communities in the management and rational use of resources (especially indigenous groups) and the encouragement of sustainable uses of biological resources, e.g. ecotourism and alternative natural products.

*Improvements in infrastructure and the quality of rural life*

The development approach followed in most of the region’s countries has favored the cities as targets of public investment, both productive and social. As a result, non-urban populations are at a disadvantage in terms of communications and social services, education and health, even in small and medium-sized rural towns. This has created a vicious circle in which the problems of rural life have encouraged migration to the cities not only by those who have trouble finding work in the rural setting, but also by those who, though they have substantial wealth, opt to live
in the cities, thereby diminishing the tax base and political resources of rural areas. It is fundamental to stop this trend for the long-term sustainability of the region’s economies. Programs of investment in rural infrastructure and the improvement of the quality of life, including potable water, electricity, housing, telecommunications, and social services have enormous importance because of their economic, political, and demographic consequences.

The lack of passable year-round roads in rural areas is a radical disincentive for investment in industry, mining and tourism by the private sector in rural areas. Investment in transportation infrastructure, highways, railways and navigable canals, in addition to having a positive impact on local employment through construction, improves access to social services, reduces costs of commercial transactions, opens new labor markets and generates a set of externalities that are favorable to production and tend to improve the quality of life.

Investment in infrastructure will make it possible to integrate marginalized areas in the national development process, decentralize government activity, reduce transaction costs and strengthen rural towns and communities through public investment and encouragement of private productive activity. This investment will also increase the opportunities for productive agricultural and non-agricultural development in rural areas and expand public services, especially in health and primary and secondary education.

**Human resources and training to improve employment opportunities**

Investment in the rural population is undoubtedly the priority alternative for reducing rural poverty. The correction of urban-rural inequalities in basic services and investment in improving the coverage and quality of education and health services should have high priority. For many countries, however, generating the conditions for all children in rural settings to have access to six years of primary education is a distant goal. For a few others, the current goal is to provide full access to four years of rural secondary education. The quality of rural education in most of the countries is inferior to the quality of urban education for equivalent years and levels of education. This is due to the dispersion of the rural population, low matriculation rates, and disincentives to teaching in the rural environment. Also, curricula generally do not address the specific needs of the rural population.

When it comes to defining and implementing the best education services for rural youth, it is important to consider specific the demographic
aspects of each rural locality. Primary and secondary education is a factor that determines both access to the labor market and income level. The children and young people to whom this effort is directed constitute an important human resource for the innovations and changes that need to occur in the short and medium term. This is a key area for public-sector intervention, which is needed to guarantee a basic level of formal education in rural areas. Access to secondary education constitutes the best guarantee that poor young people in rural areas, both women and men, will have the preparation they need to enter the urban or rural labor market at higher levels of qualification.

In terms of technical education, many countries have abundant vocational training that is largely irrelevant to the specialties and skills demanded by the market. In many cases, the supply of agricultural training is greater than the opportunities for obtaining work in the sector after training is completed. The objective here is to improve opportunities by offering technical training that is consistent with the demands of the rural and urban labor markets, including the option of self-employment. Occupational training programs carried out by agreement with private firms, combining work experience with formal training, are very efficient in this regard. The development of management training programs, as well as training in specific areas, constitutes a critical element for the competitiveness of private firms. The scarcity in most of the region’s countries of good training organizations with the technical and financial wherewithal to implement the innovative programs mentioned above means there is ample opportunity for cooperation and funding in this area at a regional level.

Finally, it is essential to strengthen basic organizational capabilities for the rural population and facilitate their full participation in rural development activities through training in aspects of the legal structure in each country, organization of groups, modes of participation, and management and administration of organizations and projects. This should include personnel of the governmental organizations responsible for formulating and supervising rural development programs and projects.

Conclusions
Currently, conditions exist to further the development of the rural economy in Latin America and the Caribbean through various instruments available to governments and technical and financial agencies dedicated to rural issues in the region. However, putting the proposed options into practice requires great effort, both from the point of view of human resource training and in terms of the necessary investment in priority areas,
which should be defined for each case. The IADB, along with other technical and financial agencies, can play an important role by working with the region’s countries, generating ideas and proposals, mobilizing financial resources and articulating regional and sub-regional efforts to strengthen and complement the individual efforts of each country.

Though many of the elements mentioned here are being utilized in various countries, their overall application is a medium-term activity that requires systematic work with periodic review, development and revision of operational tools, and lines of funding. This work should start on the demand side and be developed on the basis of dialogue between governments and technical and financial agencies. Due to the wide diversity in the countries, actions must be focused specifically on each country’s needs, identifying alternatives at the regional, departmental and municipal level.

As support for the implementation of the proposed activities, the Bank and the international financial and technical agencies related to the sector and, most importantly, the region’s countries could gradually sharpen their focus on:

- **Creating a climate of commitment to rural development, developing medium-term, multisectoral programs in the framework of national, regional, municipal and local sector strategies.** This should promote a process of transformation of rural societies that is participatory in nature and features specific policies to overcome the social, economic, institutional, and ecological imbalances analyzed here. Recent economic and technological changes reflect growing interdependence among different areas of economic activity and imply that the creation of investment programs and projects must be based on an integrated view of the rural economy. This requires sectoral studies of enough breadth and depth to serve as a basis for deciding on strategies for action. These strategies, by identifying bottlenecks, suggesting priority courses of action and defining their interrelationship with other economic policy instruments, serve not only to order and systematize action but also to inform, create consensus, and generate the political support needed for the investment activities selected.

- **The creation of a significant portfolio of programs in each country.** These programs could include initiatives that meet the following minimum criteria:
  
  1. the project addresses high-priority problems in the context of the development strategy that has been designed, and is consistent with national macroeconomic policy;
the project ensures solid technical, socioeconomic and environmental viability;

the government and/or executing organizations have the institutional structures needed to implement the project and have counterpart resources at their disposal; and

the project’s direct beneficiaries have participated in determining and formulating the project. These criteria will determine the priority of each project in relation to other investment alternatives, in addition to the social consensus and political support that guarantees that it will continue into the future. Given that in many cases there is no local development strategy or local institutional structure to carry them out, technical and financial agencies could provide support for activities that would help the governments obtain funds, especially technical cooperation funds. With this approach in mind, it is important for the programs to be designed with a medium-term time horizon (10-15 years), or in stages based on the particulars of each case. The first stage should concentrate on establishing the minimum political/institutional conditions necessary to implement the activities that are to unfold in subsequent phases.

Strengthening inter-agency cooperation and dialogue among the different sectors at a national level to implement a rural economy development agenda. The increasing cooperation between technical and financial, and regional and international agencies as part of a process of dialogue and consultation with the countries of the region has achieved a certain consensus in technical subjects of priority and the need to deepen the collaboration between the agencies, maintaining a country focus. The continuous exchange of information and work among agencies will allow an increase in number of financed and/or executed activities at a regional, sub-regional and national level, which, in turn, will bring more efficiency to the services rendered to the countries of the region. As a consequence, these services will be given to the countries in the region with greater efficiency and effectiveness. In this sense, the recently created Inter-Agency Group on Rural Development in Latin America and the Caribbean constitutes a very good start in the process of achieving closer collaboration among agencies with complementary fields.

The development of the rural economy in Latin America and the Caribbean has a promising future. Nevertheless, there are enormous chal-
lenges to overcome. Technical and funding organizations can play a fundamental role in supporting the countries in their efforts to achieve rural development using a medium- and long-range multisectoral approach. A proactive role that facilitates the mobilization of resources for strategic investment, systematic thinking through policy dialogue, dissemination of ideas and practices and the development of programs that incorporate economic reforms, institutional strengthening and investment projects in priority areas will have deep impact on the region’s economic and social development. This is the institutional challenge of the coming decade.

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CHAPTER 17

Regional Development Institutions and Poverty Reduction: Strategic Directions and New Challenges
The Role of the Asian Development Bank

By Dieter Bucher*

Poverty in Asia and the Pacific
In recent decades, Asia and the Pacific have achieved substantial growth rates that have catapulted the GDP per capita of several countries into the vicinity of major industrialized countries. GDP in Asia and the Pacific quadrupled between 1975 and 2000. There was also a dramatic decline in absolute poverty and big improvements in key social indicators such as literacy rates and life expectancy.

However this overall success story hides great diversity among countries: About two thirds of the world's 1.2 billion poor (living on US $1 a day) live in Asia and the Pacific. Some of the region’s developing countries are still among the world’s poorest, poverty reduction has been uneven and poverty may have even increased in several countries such as economies in transition. Income discrepancies between the most successful and the poorest countries are widening and within some countries the income gap between the rich and the poor is wider than ever. New groups of poor people are emerging, especially in urban areas, and environmental degradation often goes hand in hand with increased poverty. There is also high vulnerability to falling back into poverty, as demonstrated by the recent Asian financial crisis.

Who are the poor in Asia? They are wage laborers, landless workers, rain-fed and smallholder farmers, artisan fishermen, indigenous people, castes, tribes, displaced people and households headed by women, who are often disproportionately affected by poverty, especially in rural areas. Poverty in Asia and the Pacific has many different faces. It is more than simply lack of income: it involves the deprivation of essential assets and

* At the time of writing, Dr. Dieter Bucher was Senior Capacity Building Specialist at the Asian Development Bank Institute, Tokyo, Japan.
opportunities to which every human is entitled. Everyone should have access to basic education and primary health services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded as well as having some protection from external shocks. Beyond income and basic services, individuals and society are also poor—and tend to remain so—if they are not empowered to participate in making decisions that shape their lives.¹

To reduce poverty in Asia and the Pacific remains a key challenge to all the countries in the region, including those who have made substantial progress in recent years. The urgent fight against poverty is reflected in the International Development Goals (IDG), which target its core causes, each one addressing a specific aspect of poverty. One goal is to reduce the incidence of extreme poverty by half between 1990 and 2015. The Asian Development Bank (ADB) is firmly committed to these goals.²

**ADB’s Poverty Reduction Strategy**

ADB’s most recent strategy has made poverty reduction the Bank’s overarching goal. ADB’s renewed efforts in poverty reduction are based on three main pillars: (i) promotion of pro-poor and sustainable economic growth; (ii) social development; and (iii) enhancing good governance. This approach requires ADB to move from a project-financing institution to a more broad-based development organization which promotes policy reforms in its developing member countries (DMCs), assists in the development of physical and institutional capacity and finance projects and programs that are targeted to reduce poverty.

To focus ADB’s activities, a new operational cycle has been introduced to develop a broader, more systematic approach to the Bank’s activities in each country and ensure government involvement. The new cycle will also enhance the formation of strategic alliances and partnerships with other donor organizations. The main features of the new operational cycle relate in particular to poverty analysis, a high-level forum and a partnership agreement that will lead to a poverty-focused country assistance program.

At the center of ADB’s poverty reduction strategy are broad-based country poverty analyses prepared in consultation with many stakeholders. This requires an understanding of the nature, intensity and spread of

poverty in the respective country, the distributional effects of macroeconomic policies and an analysis of public expenditures and the effectiveness of government programs and institutions.

Poverty analysis will form the basis of a high-level forum that will be organized and led by each national government. The forum will discuss which possible activities will have the greatest impact on poverty reduction in the country concerned and reach a common consensus on what is required to achieve poverty reduction targets. Based on the results of the forum, the ADB will prepare an operational strategy for the country.

The strategic recommendations of the poverty analysis and the country strategy result in partnership agreements with specific governments. ADB’s country assistance plan will then translate the partnership agreement into specific activities.

All ADB loans and technical assistance projects are to contribute to poverty reduction either by accelerating pro-poor growth or by focusing directly on poverty reduction through: (i) poverty interventions that disproportionately benefit the poor; or (ii) core poverty interventions that tackle extreme poverty. From 2001 onwards, at least 40 percent of ADB’s public sector lending will target poverty interventions. As of 2002, the percentage of core poverty interventions in the Bank’s portfolio will substantially increase.

Although ADB’s approach to poverty reduction will primarily be centered on people rather than on sectors, ADB-financed programs and projects can be expected to strongly favor agriculture and rural development, social sector development in rural areas, rural infrastructure and rural finance. This focus is justifiable, since the majority of the poor in Asia and the Pacific live in rural areas.

**New Challenges to Rural Poverty Reduction**

Poverty in Asia and the Pacific is still primarily a rural phenomenon. About 670 million people or one third of the rural population are living in poverty. Poverty in rural areas not only means lack of income and assets, but also less access to basic services such as health and education, and higher vulnerability than in urban areas. With continuing population growth in most DMCs, the quality of life in rural areas will worsen even further and the degradation of the environment and natural resources will continue.

Recognizing the need to further promote the economic transformation occurring in Asia and the Pacific and the continuing rural poverty

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3 ADB; Rural Asia: Beyond the Green Revolution, Manila 2000
in many parts of the region, in 1998-99 ADB commissioned a survey on rural Asia that addressed the new opportunities and challenges facing rural societies.\(^4\) Globalization and rising expectations are accompanied by a rapid exploitation of natural resources in the region, which may endanger the sustainability of economic growth. Accordingly, the main objective of the Rural Asia Study was to provide guidance to specialists and policy-makers on key options for development strategies that will improve the quality of life of the rural population and in particular of the rural poor.

One of the priority areas of any rural poverty reduction effort should be focused on the role of women in development. The majority of the poor in rural areas are women and special efforts are needed to improve their situation, reducing gender imbalances and providing equitable access to employment, education, health services and decision-making.

Rural poverty reduction efforts need to be linked to efforts to reduce environmental degradation and to ensure sustainable environmental development for the benefit of future generations. Urgent priorities include land degradation, unsustainable agricultural, forestry and fishery practices, and water conservation issues.

With the emergence of the Asian crisis, this task will at least temporarily be difficult to achieve. Governments were forced to reduce budget outlays for rural development and social protection that aimed to reduce poverty. This in turn spurred migration back to rural areas. There are other new challenges outlined in the Rural Asia Study that will change the context in which the rural economy is working in the region:

1. Globalization and the breakdown of trade barriers together with new information technologies will force the rural sector in many countries to adjust to a new and more competitive environment.

2. In some countries of the region, a demographic transition that includes declining fertility rates will have an impact on rural employment and social security.

3. A rapidly unfolding bio-technological revolution in agriculture.

4. An increasing scarcity of natural resources including forests, water and land.

5. A changing role for government and public services.

\(^4\) ADB; Study of Rural Asia, 5 Volumes, Manila 2000
Changing Paradigms in Rural Development Projects

While ADB’s overall lending to agriculture and natural resources was about 19% when it started in 1967, it has been substantially lower since 1995 and no longer exceeds 10%. However, projects and programs in support of social and physical infrastructure and financial systems in rural areas offset this decline. A recent evaluation showed that the performance of agriculture and rural development projects was generally weaker than projects in other sectors. This was mainly because of over-ambitious and complex project design, insufficient capacities of executing agencies and lack of stakeholder involvement.

The past experience of ADB with the promotion of agriculture and rural development will require some paradigm shifts, including, but not necessarily limited to the following issues:

1. **Broader Focus.** The traditional focus of ADB-supported programs and projects on economic growth alone was too narrow. It is now generally accepted that economic growth, while necessary, will not be sufficient to overcome poverty. The focus of rural development projects therefore needs to be widened to include country-specific linkages between economic growth, poverty reduction and sustainable environmental development.

2. **Balancing Rural and Urban Development.** In the past, macroeconomic growth frequently favored the development of the urban sector over rural development, and industry over agriculture. Macroeconomic policies, such as fiscal and monetary policies and exchange rate policies, need to be designed in a more balanced way so that the rural sector can maintain its competitiveness and is not negatively affected by such policies.

3. **Food Security.** Agriculture and rural development policies in the past were frequently designed to seek food self-sufficiency. It has now been recognized that it may be more appropriate to move from a concept of food self-sufficiency to a concept that ensures food security, through a system of production and/or cash incomes/transfers.

4. **Broad Based Rural Development.** Rural development efforts in the past were often too focused on agriculture. Instead, both agriculture and the non-farm economy should be promoted to overcome rural poverty. Such economic diversification of the rural economy must also include physical and social infrastructure investments.
Creating an Enabling Environment. Central governments (and donors) in the past tried to enhance agriculture and rural development by focusing on individual crops, livestock or fishery through the provision of inputs, credit or extension. Instead, it is now recognized that it may be more appropriate for governments to contribute to the creation of an enabling environment that leaves the basic decisions regarding the nature of activities undertaken in rural areas to households, farms or communities (including community based organizations or NGOs).

Governance and Capacity Building. It is now generally accepted that the involvement and commitment of all stakeholders is essential to ensure successful rural development. The traditional top down-planning for rural development that was largely determined by central governments needs to be complemented with a bottom-up planning process. This in turn requires capacity development of stakeholders not involved in earlier project and program planning, such as regional and local governments, CBOs and/or NGOs.

Adaptive Research. Agriculture research has contributed significantly to poverty reduction through yield increases and the introduction of new varieties provided by the public sector. However this approach has gradually reached its limitations. The private sector is now much more at the forefront of agricultural research in areas such as biotechnology. A shift in agricultural research from crops-related research to adaptive research with priorities determined locally seems to be warranted. This would also include the promotion of public-private partnerships.

Access to Financial Capital. There is new thinking regarding the role of financial markets in rural development. In the past, agricultural credit was generally offered by specialized state-owned credit organizations for specific crops and was frequently subsidized. The experience with subsidized and targeted credit schemes has led to a paradigm shift in rural finance. Central governments moved away from financing specific credit programs towards supporting financial markets that provide incentives for formal and non-formal financial institutions to reach out to rural areas. New and innovative forms of credit are frequently group-based and combined with savings schemes.

Access to Water. In many parts of Asia and the Pacific, water was considered a public good available free of charge. However, water resources are becoming increasingly scarce. This requires the introduction of formal water markets, user rights/fees and watershed/irrigation management through farmer involvement.
Access to Land. Many developing member countries of the ADB, with support of donor agencies, have tried to implement land reforms with very little success. It is now recognized that integrated property laws should be enhanced and formation of effective land administration institutions should be encouraged.

**ADB’s Approach to Rural Poverty Reduction**

ADB is now in the process of developing a new rural development policy that will take into account the Bank’s poverty reduction strategy, the lessons learned from earlier Bank-financed projects in this area, the findings of the Rural Asia Study and the required paradigm shifts outlined above. The main building blocks of this strategy will be based on a holistic approach that will enhance employment creation through diversification of agricultural activities and non-farm activities. Such employment creation must be based on stable and sustained economic growth, accompanied by measures that contribute to meeting basic human needs and building social capital. Such an approach requires local ownership and empowerment of the poor. Early stakeholder involvement in the Bank’s project cycle is therefore necessary.

The new operational cycle outlined above will facilitate identification of the rural poor in the various countries concerned. The Bank’s program will give special attention to disadvantaged and vulnerable groups by increasing lending for targeted poverty interventions and core poverty interventions. In addition, strong focus will be given to improving rural infrastructure and the delivery of rural services that contribute directly and indirectly to rural poverty reduction, such as access to social services and greater mobility within an economy. Such interventions will also contribute to improve the overall quality of life in rural areas.

Given the close interrelationship between environmental degradation and poverty, ADB will have to combine its rural poverty reduction efforts with policies that improve the use of natural resources and encourage sound and sustainable environmental management. Such policies will have to prevent or minimize further environmental degradation and contribute to improvements in the natural environment.

ADB is a broad-based development organization that offers policy advice and capacity building to its clients, but it is obvious that its lending program to rural areas needs to be increased. Lending opportunities for traditional agricultural projects may be limited, but lending for non-farm investments, including social and physical infrastructure and capacity building can be expanded.
CHAPTER 18

The Role of Regional Development Centers: The Center on Integrated Rural Development for Asia and the Pacific [CIRDAP]

By Mya Maung*

Introduction
Notwithstanding the remarkable progress made on the social and economic fronts in the second half of the 20th century, poverty continues to be the greatest challenge. Of the world’s six billion people, 1.2 billion live on less than $1 a day. Forty-four percent are concentrated in South Asia, 23 percent in East Asia and the Pacific and 24 percent in Sub-Saharan Africa. Besides income, education, health, nutrition and other indicators of human development also have to be considered. Future demographic changes and the depletion of natural resources are bound to add to the challenges of poverty almost everywhere in the Third World.

Some Facts About Rural Development and Poverty in CMCs
The CIRDAP member countries (CMCs) extend over a vast span of the Asia Pacific region, from Indonesia in the east to Afghanistan in the west. In 1998, CMCs covered an area of 3.8 million sq. km—seven percent of the world’s land area. The total population of CMCs stood at 1.80 billion in 1998—about 30 percent of the world’s population. The total population of CMCs is likely to increase by 44 percent to 2.53 billion—32 percent of the world’s population of 7.89 billion—by 2020. Population density and per capita income vary significantly across CMCs. During 1995, 71 percent of the population of CMCs lived in rural areas. This is expected to decline to 55 percent by 2020.

Structural Change
The economies of CMCs have undergone a significant structural transformation in terms of output. This transformation is less conspicuous in em-

* At the time of writing, Dr. Mya Maung was the Director General of the Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP), Dhaka, Bangladesh.
ployment structure. In terms of production structure, Indonesia, Malaysia and Thailand have experienced rapid changes, agriculture dropping from 31 to 15 percent of GDP in Indonesia, 23 to 13 percent in Malaysia and 20 to 11 percent in Thailand. However, the percentage share of the labor force in agriculture remained at 44 percent in Indonesia in the 1980s and 90s. In Thailand it declined from 71 percent in 1980 to 40 percent in 1996. In Malaysia it dropped from 40 percent in 1980 to 17 percent in 1996.

In general, the imbalance between the sectoral share of output and employment in CMCs is a source of concern since it reflects a widening disparity between the income levels of the urban industrial sector and the rural agricultural sector. This also encourages increasing rural-urban migration and indicates increasing disparity in living conditions between urban and rural areas.

**Dominance of Rain-fed Agriculture**

A technocratic approach to irrigated agriculture has been followed in most CMCs, leading to an accelerated rate of growth in the output of cereals. But less than 36 percent of land is irrigated in all CMCs, except Pakistan, where it stands at 81 percent. The success story of the Green Revolution in Pakistan is well known. In most CMCs, however, rain-fed ecosystems persist on more than 50 percent of the arable land.

**Incidence of Poverty**

The incidence of poverty is pervasive, both in relative and absolute terms, among farmers under rain-fed agriculture. In general, the average income of these farmers is lower than that of the farmers under irrigated agriculture. This is also reflected in the migration of educated and young people out of rain-fed agriculture, and their low health and educational status. The recurrence of drought has further worsened the plight of those under monsoon agriculture in most parts of South Asia and Sub-Saharan Africa.

In 1990, more than 700 million people in ten CMCs were poor. A majority of them, about 560 million, were in South Asian CMCs. Except in a few cases, nearly 80 percent of the poor reside in rural areas, suggesting the predominance of poverty as a rural phenomenon. The case for poverty eradication is measured by all stakeholders in CMC.

**The Need For Regional Rural Development Centers**

A comparative neglect of agriculture and a bias towards the urban industrial sector permeated development thinking and strategy in the 1950s
and 60s. This is reflected in the lower share of investment allocated to the agricultural sector. As economic development efforts have little impact on subsistence agriculture, the vast masses in that segment did not find opportunities to participate in the process of development and, therefore, were marginalized. The core problems of widespread poverty, growing inequality, rapid population growth and rising unemployment find their origins in the stagnation, and often retrogression, of economic life in rural areas.

The principal elements of a development that tackles rural poverty in the context of East Asia have been analyzed by Aziur Rahman Khan: 1) rapid labor-intensive growth providing the poor with productive and remunerative employment; 2) conversion of the poor into productive entrepreneurs engaged in self-employment; 3) increasing the productivity of poor workers in both wage-employment and self-employment; 4) improving the terms of exchange for the produce of the poor; 5) poor households without an adequate endowment of labor require direct assistance in the form of income transfer.

The Republic of Korea and Taiwan are among the most successful cases of rural poverty reduction because they have implemented a strategy that included the first four elements stated above. This was a service delivery-cum-empowerment approach, based on a mix of reformist and technocratic styles of rural development. In most other countries in South and East Asia, with the exception of Japan, China and Vietnam, there was a mix of welfarist-service delivery and empowerment approaches to rural poverty reduction. Since the facts of poverty and their underlying processes and characteristics differ markedly across regions, there is a strong case to establish, organize and manage regional rural development centers. It is against this background of the need for integrating the theory and facts of rural poverty that the establishment of the CIRDAP in 1979 assumes prominence.

Major Rural Development Strategies for Poverty Reduction

There are basically three broad strategies of rural development aimed at poverty reduction: 1) providing access to, and management of, a sustainable livelihood system; 2) capacity building and empowerment; 3) social services and safety nets.

These three strategies are not independent of each other and there are areas where they merge and overlap. Promoting opportunity is the first element which recognizes that not being assertive adversely affects income-earning opportunities for the poor. Material opportunities for the poor,
such as jobs, credit, roads, electricity and markets for their products, are widely recognized as key, along with agrarian reform. Facilitating empowerment is a vast endeavor and is coterminous with human development. Enhancing security implies the provision of adequate social services and safety nets for the vulnerable. All three components of the strategy of poverty reduction require the participation of stakeholders and an appropriate mix of State-based, market-based and membership-based systems engaged in the growth of opportunities, facilitating empowerment and enhancing security for the poor. It may be noted that membership-based organizations are now popularly known as self-help groups. Often due to high unit transaction costs, a large section of the rural poor are excluded from market-based systems. Hence, State-based and membership-based systems are evolving patterns of partnership and collaboration in the battle against rural poverty.

**Meeting the Challenge: CIRDAP’s Strategies, Activities, Policy Dialogue and Achievements**

CIRDAP was established in 1979, with headquarters in Dhaka. Its approach to rural development encompasses a vast field of promoting growth, equity, stability and sustainability. Towards this end, CIRDAP uses different ways and means to encourage member countries to formulate and implement rural development policies for the benefit of the poor. Its research department is engaged in continuous monitoring, assessment and critical analysis of on-going rural development programs and their impact on poverty reduction. CIRDAP’s *Rural Development Report 1999* is a landmark. A special feature of this report is the innovative concept of the rural-urban disparity index (RUDI). This is a composite index based on entitlement as measured by real GDP per capita in PPP $ and progress in human capital. RUDI reveals that urban bias in development persists in all CMCs in varying degrees. RUDI is expected to contribute to the ruralization of development priorities in CMCs. In addition to carrying on research, CIRDAP is concerned with the demonstration of best practices in rural development. It is also deeply concerned with capacity-building and human development by promoting participatory approaches, technical assistance and collaboration with different agencies at different levels.

**Concluding Remarks**

The stubborn persistence of poverty in the rural areas of Asia and Sub-Saharan Africa poses a potential threat to the entire world. Poverty re-
duction, therefore, has become an important challenge facing governments, non-government organizations and sometimes even the market. Development paradigms and poverty reduction strategies underwent a metamorphosis during the second half of the 20th century. The challenge of poverty reduction is more critical due to the market-led growth strategies increasingly followed in the uni-polar world. But the State cannot abdicate its responsibility to the poor and vulnerable groups who are being politically marginalized, economically deprived, socially handicapped and sometimes even segregated. In cooperation and collaboration with NGOs and market-friendly approaches, the State must ensure opportunities, empowerment and security to deal with economic shocks, natural disasters and social turmoil. Since resource endowments, institutional systems and historical factors differ across regions and even within countries, there is a need to establish and manage regional centers for research, monitoring, evaluation and the exchange of experience and facts across countries. During its short existence, CIRDAP has made a significant contribution to the theory and practice of rural development in its region.